



**DEPARTMENT OF
TRADE AND INDUSTRY**

**Annual Report and
Accounts 2006-07**

HC 584

JULY 2007



This document is part of a series of Departmental Reports (Cm 7091 to Cm 7117) which, along with the Main Estimates 2007-08, the document Public Expenditure Statistical Analyses and the Supplementary Budgetary Information 2007-08, present the Government's expenditure plans for 2007-08, and comparative outturn data for prior years.



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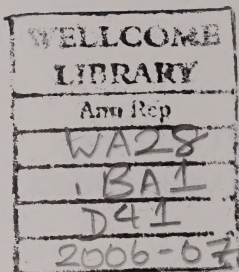


Department of Trade and Industry Annual Report and Accounts 2006-07

Including the annual Departmental Report and the
Consolidated Resource Accounts for the year ended
31 March 2007

Presented by the Secretary of State for Business,
Enterprise and Regulatory Reform, pursuant to the
Government Resources and Accounts Act 2000 c20, s.6

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Foreword



This report records both the performance and the financial situation of the Department of Trade and Industry over the twelve months to March 2007. Alistair Darling served as Secretary of State for Trade and Industry during this period.

This is the DTI's last annual report – it ceased to operate as such on 28 June when the Prime Minister made several changes in the way the Government is organised. This included the creation of a new Department for Business, Enterprise and Regulatory Reform (BERR), which has assumed much of the work of the DTI, and incorporated the work of the Better Regulation Executive, formerly in the Cabinet Office.

We live in a time of massive and rapid economic change. Change that will affect every one of us as individuals and which brings new challenges for British businesses and for our economy. The DTI had a significant role to play in this context; the new BERR will provide new leadership on the challenge of globalisation by developing Britain's world-class competitive business environment.

The DTI's successor Departments inherit from it a strong relationship with business and other groups, committed and experienced staff and a record of success in many policy areas. Achievements in 2006-07 include:

- The Energy Review and Energy White Paper which set out a long term framework for action to address the challenges of climate change and maintaining stable and affordable energy supply;
- A further rise in spending for science and technology announced in this year's Budget from £3.4 billion this year to £3.9 billion in 2010-11;
- Labour market reforms ensuring fairness through new Age Discrimination Regulations and extensions of maternity leave and the right to request flexible working; while at the same time ensuring continued flexibility, for example on the EU Working Time Directive; and
- The Companies Act, which will help ensure Britain remains one of the best places in the world to set up and run a business by simplifying and improving company law.

I am grateful to the many people in the Department and its delivery partners for achieving the outcomes set out in this report. As the first Secretary of State for Business, Enterprise and Regulatory Reform, I look forward to working with them to make the new Department a success.

A handwritten signature in black ink, appearing to read 'John Hutton'.

Rt. Hon. John Hutton MP

Secretary of State for Business, Enterprise and Regulatory Reform

Rhagair



Mae'r adroddiad hwn yn cofnodi perfformiad a sefyllfa ariannol yr Adran Masnach a Diwydiant dros y deuddeng mis hyd at Fawrth 2007. Alistair Darling oedd yr Ysgrifennydd Gwladol dros Fasnach a Diwydiant yn ystod y cyfnod hwnnw.

Dyma adroddiad blynyddol olaf y DTI – peidiodd â gweithredu o dan yr enw hwnnw ar 28 Mehefin pan wnaeth y Prif Weinidog sawl newid yn nhrefn y Llywodraeth. Roedd hyn yn cynnwys creu adran newydd sef yr Adran Busnes, Menter a Diwygio Rheoleiddio (BERR), sydd wedi ysgwyddo llawer o waith y DTI, ac wedi ymgorffori gwaith y Weithrediaeth Gwell Rheoleiddio, a oedd gynt yn Swyddfa'r Cabinet.

Rydym yn byw mewn cyfnod o newid economaidd enfawr a chyflym: newid a fydd yn effeithio ar bob un ohonom fel unigolion ac sy'n dod â heriau newydd i fusnesau Prydain ac i'n heconomi. Roedd gan y DTI ran arwyddocaol i'w chwarae yn y cyddestun hwn; bydd y BERR newydd yn rhoi arweiniad newydd ar her globaleiddio drwy feithrin yr amgylchedd busnes cystadleuol o'r radd flaenaf sydd gan Brydain.

Bydd yr Adrannau a fydd yn olynu'r DTI yn etifeddu perthynas gref â byd busnes a grwpiau eraill, staff ymroddgar a phrofiadol a hanes o lwyddiant mewn llawer o feysydd polisi. Mae cyraeddiadau 2006-07 yn cynnwys:

- Yr Adolygiad Ynni a'r Papur Gwyn ar Ynni a nododd fframwaith hirdymor ar gyfer gweithredu i fynd i'r afael â heriau newid hinsawdd a chynnal cyflenwad ynni sefydlog a fforddiadwy;
- Cynnydd arall yn y gwariant ar wyddoniaeth a thechnoleg a gyhoeddwyd yn y Gyllideb eleni, o £3.4 biliwn eleni i £3.9 biliwn yn 2010-11;
- Diwygio'r farchnad lafur gan sicrhau tegwch drwy Reoliadau newydd ar Wahaniaethu ar Sail Oedran ac estyn absenoldeb mamolaeth a'r hawl i ofyn am weithio'n hyblyg; gan sicrhau hyblygrwydd parhaol ar yr un pryd, er enghraifft ynglŷn â Chyfarwydddeb Amser Gweithio yr Undeb Ewropeaidd; a'r
- Ddeddf Cwmnïau, a fydd yn helpu i sicrhau bod Prydain yn parhau'n un o'r lleoedd gorau yn y byd i sefydlu a rhedeg busnes a hynny drwy symleiddio a gwella'r gyfraith ar gwmnïau.

Rwy'n ddiolchgar i'r nifer fawr o bobl yn yr Adran ac i'w phartneriaid gweithredol am sicrhau'r deilliannau sydd wedi'u nodi yn yr adroddiad hwn. Fel yr Ysgrifennydd Gwladol cyntaf dros Fusnes, Menter a Diwygio Rheoleiddio, rwy'n edrych ymlaen at weithio gyda nhw i sicrhau bod yr Adran newydd yn llwyddiant.

Y Gwir Anrh. John Hutton AS

Yr Ysgrifennydd Gwladol dros Fusnes, Menter a Diwygio Rheoleiddio

About this report

What is this publication about?

1. This document is the last annual report of the Department of Trade and Industry. The Department was succeeded by the new Departments for Business, Enterprise and Regulatory Reform (BERR), and Innovation, Universities and Skills (DIUS) in June 2007. This Report summarises the Department's performance over the year from April 2006 to March 2007, both in terms of achievements against objectives and financial results.
2. Many of the projects and programmes described in this Report are part of a longer-term effort that extends beyond 2006-07. Where this Report describes initiatives or plans extending beyond June 2007, such work is likely to be taken forward by the DTI's successor Departments, and they will report on it in future performance reports.

How is this Report structured?

3. In previous years, central Government Departments published separate Departmental Reports – covering the Department's work over the year – and Resource Accounts – containing the Department's financial accounts. The Report in front of you is a combined publication of both.
4. The structure of the Report reflects the split between performance information and financial information.
5. On performance:
 - **Chapter 1 (Strategic overview)** explains the Department's strategy during the reporting year, as well as the transition from the DTI to its successor departments DIUS and BERR from June 2007.
 - **Chapter 2 (Performance report)** describes performance during 2006-07 against the Department's targets and objectives.
 - **Chapter 3 (The Department)** provides details on how the Department works and how it is organised, as well as information on the agencies and other bodies that form the wider Departmental family.
6. As regards financial information:
 - **Chapter 4 (Introduction to the Department's finances)** explains the difference between the two sets of financials in chapters 5 and 6, and provides a financial review and commentary of the most relevant financial data.

- **Chapter 5 (Resource accounts)** contains the audited accounts 2006-07 for DTI and a number of bodies consolidated with DTI.
- **Chapter 6 (Budgetary spend of the Departmental family)** contains (unaudited) budgetary spend figures for the whole DTI “family” of delivery partners and other associated bodies over a number of years (including looking ahead).

What should you know to help you read this Report?

7. A tabulator bar on the right-hand side of the page facilitates moving from chapter to chapter. The report on the Department’s performance in chapter 2 is kept concise where possible, with notes throughout the text linking to annex B.4 which sets out further reading, source materials and relevant websites. Annex B.1 contains a list of acronyms used throughout the Report, such as “PSAs” (public service agreements).
8. This Report integrates the Department’s performance report and annual accounts, and as a result the structure is somewhat different compared to the separate publications of previous years. Annex B.2 contains a table translating the structure of last year’s reports into this year’s, and may be helpful when comparing the documents.
9. This Report covers the financial year running from April 2006 to March 2007. However, where possible significant events since the end of the financial year up to the beginning of July 2007 are reflected. In particular, section 2.7 (energy) has been updated to cover events up to and including the publication of the Energy White Paper in May 2007.

How can you obtain copies of this Report?

10. This Report is available both as a printed publication, and online on the Department’s website at: www.dti.gov.uk/about/strategy-objectives/annual-spending/page25111.html
11. Hardcopies can be obtained from TSO, see contact details on the back cover of this Report. Please quote House of Commons paper number HC 584.
12. This Report can be made available in alternative formats on request.

CHAPTER 1

Strategic overview

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Section 1.1

The DTI and its successor departments

1.1 Britain is a major player in the global economy. Over the years the DTI played a big part in keeping it there, with a wide-ranging portfolio: 2006-07 alone brought the Energy Review (page 88), working for more open and fairer trade through the Doha Development Agenda (page 72), the Companies Act 2006 (page 84) and deciding the future of the Post Office network (page 107). These are issues that impact on everyone's lives – from the price of their gas bills to the future of a nearby post office, from the level of the minimum wage to advice to a budding entrepreneur.

1.2 The global economy is changing at an unprecedented rate presenting profound challenges to all national economies. The twin trends of globalisation and technological change are continually reshaping the environment in which businesses operate, generating ever more intense competition across increasingly global markets.

1.3 But alongside these challenges are significant new opportunities, with the greatest rewards for those nations with the highest levels of innovation and skills and the most dynamic and enterprising business sectors. Ensuring that Britain seizes these new opportunities is key to the future prosperity of us all. To rise to the new global challenges, Britain must continue to develop its world-class competitive business environment as the key to being a dynamic, flexible and competitive economy.

Department for Business, Enterprise and Regulatory Reform (BERR)

1.4 To lead this work, the new Department for Business, Enterprise and Regulatory Reform (BERR) was created on 28 June 2007. The new BERR takes over much of the work of the DTI, and will be responsible for:

- creating the conditions for business success, developing deeper and more effective engagement with business, with the ability to promote the competitiveness agenda across critical areas of Government policy;
- promoting choice and quality for consumers through competition policy and for ensuring an improved quality of life for employees;
- promoting productivity and enterprise across Government and within the EU – a key priority will be its cross-Government role in promoting better regulation across the business, public and voluntary sectors. The Better Regulation Executive has moved to the new BERR to lead that work.

1.5 The Government will be assisted by a new Business Council for Britain in putting in place the right strategy to promote the long-term health of the UK economy. The Council will comprise senior business leaders from a range of sectors, able to provide clear, independent advice on the reform priorities to enable business to compete in the global economy.

1.6 In addition, the new Department has assumed from the DTI policy responsibility for energy, corporate law, and, working closely with the Department for Communities and Local Government, making sustainable improvements in the economic performance of all English regions. BERR will have joint responsibility with the Department for International Development on trade policy, and with the Foreign and Commonwealth Office on trade promotion.

Department for Innovation, Universities and Skills (DIUS)

1.7 In the years ahead, countries will increasingly derive their competitive edge from the speed with which they are able to innovate, building on a world-class research base, creating new products and markets and driving enterprise and efficiency. Seizing these new opportunities will also require a world-class skills base – both through the expansion of high-end graduate skills, but also by raising the skills of the wider adult workforce, including those currently unskilled.

1.8 To ensure that Britain is equipped to meet these challenges a new Department for Innovation, Universities and Skills (DIUS) was formed on 28 June as well. The new DIUS will be responsible for driving forward delivery of the Government's long-term vision to make Britain one of the best places in the world for science, research and innovation, and to deliver the ambition of a world-class skills base.

1.9 It has therefore assumed responsibility from the DTI for science and innovation – including ensuring world-class research and increased business innovation.

1.10 DIUS has also been given responsibility for ensuring that the UK has the skilled workforce it needs to compete in a global economy. The Department will, therefore, be responsible for the development, funding and performance management of higher education (both teaching and research) and further education, working closely with the Department for Children, Schools and Families. The DIUS will also be responsible for taking forward the Government's wider skills agenda – including the implementation of Lord Leitch's "Review of Skills", published last year.

Section 1.2

The Department's strategy

1.11 This section describes the Department's strategy during the reporting year. Where the DTI's successor departments (BERR and DIUS, see section 1.1) have assumed responsibility from the DTI, they will build on this to develop their strategy on business, enterprise, regulatory reform, innovation, universities and skills.

1.12 The Departmental statement of purpose during the reporting year was:

to create the conditions for business success and help the UK respond to the challenge of globalisation.

Background

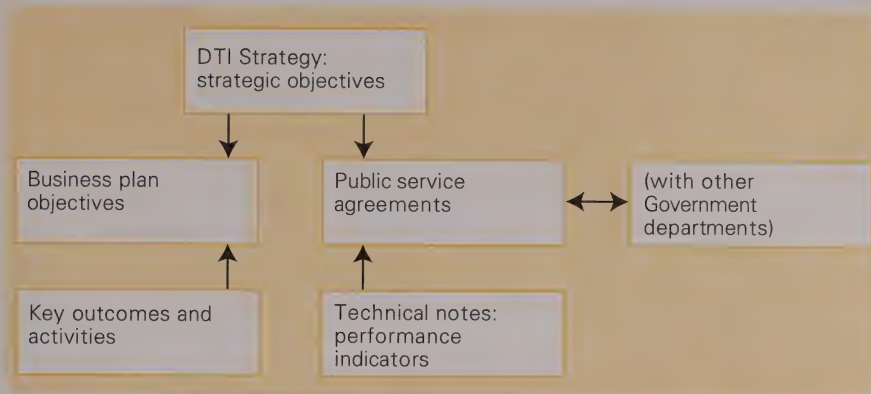
1.13 The UK's domestic policy framework has delivered a recent period of unprecedented growth and stability which, combined with the UK's free and fair markets, has resulted in the UK becoming a magnet for foreign direct investment in both manufacturing and services, and the City occupying a key position in the global financial system. Internationally, the UK is leading work to maximise the gains from globalisation, while at the same time leading the thinking on how best to mitigate the potential transitional costs associated with the changes globalisation brings to patterns of employment and consumption.

1.14 The challenge is to maintain a successful economy against a background of increasing competition, not only from Europe and the US, but particularly from China and India. The UK has made steady progress in reducing the productivity gap with its competitors, against a backdrop of rising employment since 1997 (see page 20). To go further the Government has identified five key drivers – investment, enterprise, innovation, skills and competition – all of which are closely linked to the Department's policies and activities.

1.15 The Department pursued its statement of purpose by focusing on the following strategic objectives:

- promoting world-class science and innovation (see section 2.4);
- supporting successful business (see section 2.5);
- ensuring fair markets (see section 2.6);
- secure and sustainable energy (see section 2.7).

1.16 In addition, the Department managed a portfolio of Government assets and liabilities (see section 2.8).



Implementing the Department's strategy through targets and objectives

1.17 Strategic objectives are turned into specific and, as far as possible, measurable outcomes, through “public service agreements” and “business plan objectives”. See chapter 2 for the substance of the annual report on performance both against public service agreements and business plan objectives for each strategic objective as well as the Department's work on managing assets and liabilities.

1.18 **Public service agreements** are targets that are agreed across Whitehall for each spending review. The current PSAs are the ones agreed for 2005 to 2008 in the Spending Review 2004. A range of data indicators underpins each PSA and allows performance to be measured. Details on these indicators can be found in technical notes to the PSAs, available on the Department's website.¹

1.19 **Business plan objectives** are objectives set by the Department to give focus to each of the Department's strategic objectives, as identified above. The set of business plan objectives covered in this Report was formulated in 2005; each year the Department draws up a Business Plan that sets out specific key outcomes and activities to be pursued against each business plan objective. The 2006 Business Plan covers the current reporting year.²

1.20 Public service agreement targets define the key improvements that the public can expect from Departments; the business plan objectives cover the Department's work more comprehensively.

CHAPTER 2

Performance report

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Section 2.1

Introduction

2.1 This chapter contains the report on performance against the Department's objectives during 2006-07. The Department's work on productivity cuts across all objectives, and is discussed in section 2.3. The remainder of the chapter is structured around the strategic objectives identified in section 1.2: promoting world-class science and innovation (section 2.4); supporting successful business (section 2.5); ensuring fair markets (section 2.6); and secure, sustainable energy (section 2.7). Section 2.8 discusses the Department's performance on managing Government assets and liabilities.

Report on performance against objectives and targets

2.2 Each section reports on performance against both public service agreements (PSAs) and business plan objectives (BPOs) that are relevant to the strategic objective in question. See section 1.2 above for an explanation of what PSAs and BPOs are, and how they are used to implement the Department's strategy.

2.3 This chapter focuses on the Department's performance against PSAs, as being the key improvements that the public can expect from the Department. The report on PSAs sets out progress against its performance attributes and indicators, as detailed in technical notes.¹ The progress report on BPOs follows the "key outcomes and activities" set out for each BPO in the business plan we published at the start of the reporting year.²

Transition from DTI to its successor Departments

2.4 Information in this performance report about the Department's work beyond June 2007 – when it was transferred to the new Departments for Business, Enterprise and Regulatory Reform (BERR) and Innovation, Universities and Skills (DIUS) – should be taken to refer to these successor Departments.

Overview of spend by objective

2.5 Each section contains a table setting out budgetary spend of the Department and its delivery partners on the objective in question. Please note that the figures given in these tables may differ from those in the accounts in chapter 5 due to different accounting boundaries. Section 4.1 explains the differences.

Integrated report covering the Department and its delivery partners

2.6 Where appropriate, this chapter covers both the work of the "core" Department and the work of its delivery partners (such as Agencies). More detail on the specific achievements of agencies and other Departmental delivery partners can be found in their own annual reports. Section 3.3 provides references to these.

Further details in annexes

2.7 The following further details on PSAs are set out in annexes to this Report:

- information on the quality of data systems used to measure progress against the current PSAs (see annex A.1); and
- information on PSAs from previous spending reviews (see annex A.2).

2.8 Notes referred to throughout the text are in annex B.4.

Section 2.2

Summary of performance on PSA targets

Summary of progress on current PSA targets

2.9 Of the eleven PSA targets from SR04, five are assessed as on course to be delivered, one is assessed as showing slippage and two are split up and assessed in more detail by sub-target (but each show most of the sub-targets as being on course). Two further targets are yet to be assessed, and finally one target (PSA 9) has transferred to the Department for Communities and Local Government and is no longer covered in this Report.

SR04 target	Performance	Page
1. Productivity:	On course	20
"Demonstrate further progress by 2008 on the Government's long-term objective of raising the rate of UK productivity growth over the economic cycle, improving competitiveness and narrowing the gap with our major industrial competitors." Joint with HM Treasury.		
2. Science and innovation:	On course	26
"Improve the relative international performance of the UK research base and increase the overall innovation performance of the UK economy, making continued progress to 2008, including through effective knowledge transfer amongst universities, research institutions and business."		
3. Competition and consumers:	On course	70
"Promote fair competitive markets by ensuring that the UK framework for competition and for consumer empowerment and support is at the level of the best by 2008, measuring the effectiveness of the regime through international comparisons, supported by a broader evidence base."		
4. Energy:	Sub-targets:	90
"Lead work to deliver the goals of energy policy:	(i) On course	
(i) Reduce greenhouse gas emissions by 12.5% from 1990 levels in line with our Kyoto commitment and to move towards a 20% reduction in carbon dioxide emissions below 1990 levels by 2010, through measures including energy efficiency and renewables. Joint with the Department for Environment, Food and Rural Affairs and Department for Transport.	(ii) On course	
	(iii) Slippage	
	(iv) On course	
(ii) Maintain the reliability of energy supplies.		
(iii) Eliminate fuel poverty in vulnerable households in England by 2010 in line with the Government's Fuel Poverty Strategy objective. Joint with the Department for Environment, Food and Rural Affairs.		
(iv) Ensure the UK remains in the top three most competitive energy markets in the EU and G7."		

SR04 target	Performance	Page
5. Trade barriers: "Ensure that the EU secures significant reductions in EU and world trade barriers by 2008 leading to improved opportunities for developing countries and a more competitive Europe." Joint with the Department for International Development.	Slippage	72
6. Enterprise: "Build an enterprise society in which small firms of all kinds thrive and achieve their potential, with: (i) an increase in the number of people considering going into business; (ii) an improvement in the overall productivity of small firms; and (iii) more enterprise in disadvantaged communities."	Sub-targets: (i) Slippage (ii) On course (iii) On course	47
7. Regional economic performance: "Make sustainable improvements in the economic performance of all the English regions by 2008 and over the long term reduce the persistent gap in growth rates between the regions, demonstrating progress by 2006." Joint with HM Treasury and the Department for Communities and Local Government.	On course	53
8. UK Trade & Investment: "By 2008 deliver a measurable improvement in the business performance of UK Trade & Investment's international trade customers, with an emphasis on new to export firms; and maintain the UK as the prime location in the EU for foreign direct investment." Joint with the Foreign and Commonwealth Office.	On course	64
9. Gender equality: "By 2008, working with other Departments, bring about measurable improvements in gender equality across a range of indicators, as part of the Government's objectives on equality and social inclusion."	<i>This target has transferred to DCLG³</i>	304
10. Maximising potential in the workplace: "By 2008, promote ethnic diversity, cooperative employment relations and greater choice and commitment in the workplace, while maintaining a flexible labour market."	Not yet assessed	77
11. Nuclear Decommissioning Authority: "Reduce the civil nuclear liability by 10% by 2010, and establish a safe, innovative and dynamic market for nuclear cleanup by delivering annual 2% efficiency gains from 2006-07; and ensuring successful competitions have been completed for the management of at least 50% of UK nuclear sites by end 2008."	Not yet assessed	105

Section 2.3

Productivity

2.10 This is the Department's overarching PSA target (joint with HM Treasury). Productivity growth is important for improving prosperity. The Department has a role in promoting productivity growth by establishing a competitive environment, and delivering policies to correct market failures that impede productivity growth.

2.11 The Government has identified five drivers of productivity – competition, innovation, skills, enterprise and investment – which provide a framework for policy development. The Department has a wide-ranging programme of reforms that support and target all five drivers of productivity. The Department has a number of other PSAs through which these policies work to improve overall productivity. Progress on associated PSA targets is outlined elsewhere in this Report.

SR04 PSA 1 – Productivity

On Course

“Demonstrate further progress by 2008 on the Government's long-term objective of raising the rate of UK productivity growth over the economic cycle, improving competitiveness and narrowing the gap with our major industrial competitors.” Joint with HM Treasury.

Current position

2.12 The latest data from the Office for National Statistics (ONS), published in February 2007, shows that the UK's productivity gap, on the output-per-worker measure, has closed with Germany and is closing with France. Although the gap with the US remains large, the UK is the only G7 country to have kept pace with the impressive productivity performance of the US.

2.13 On the output-per-hour-worked measure, the gap with France is smaller than previously thought, due to revisions to French hours-worked data in 2006, which has resulted in the gap from 1995 onwards being revised downwards from 17 to 10 percentage points. The UK has narrowed the gap with Germany, France and the US since 1995 although gaps with each country remain.

2.14 Together these measures suggest that the UK is moving in the right direction in terms of closing its overall productivity gap with its major competitors. The UK also appears to be making progress in raising its long-term productivity growth over the economic cycle. According to the latest estimates from HM Treasury in Budget Report 2007, output-per-hour-worked productivity growth between the “on-trend” points in the first half of the current economic cycle (1997H1 to 2001Q3) was 2.60%, compared to 1.92% over the previous cycle (1986Q2 to 1997H1).

Figure 2.1 International comparisons of productivity: GDP per worker (UK = 100)

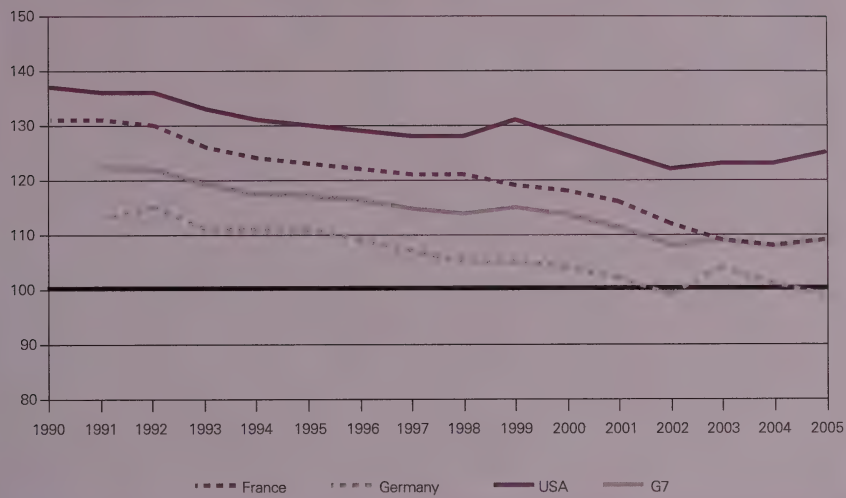


Figure 2.2 International comparisons of productivity: GDP per hour worked (UK = 100)



Factors affecting performance

2.15 Improving the productivity performance of the UK is a long-term challenge. It takes time for workers, businesses and consumers to respond to economic reforms and for the impacts to feed through into the productivity data. Given this time lag, it is more reasonable to look for changes in the drivers of productivity when assessing progress towards meeting the Department's PSA 1 target.

2.16 The Government has monitored the performance of a range of indicators for the five drivers of productivity mentioned above. In particular, there have been improvements in the competition regime, evidence of rising skills levels across the workforce and improvements in the UK's world-class science base. However there are still areas where the UK appears to be performing relatively poorly to its competitors, notably with respect to levels of investment and R&D expenditure.⁴

2.17 As the indicators of performance change slowly, productivity is influenced in the short term by the economic cycle and also potentially by changes in the labour market. Recent improvements in the UK's relative productivity performance have been all the more impressive as they have occurred simultaneously with rising employment since 1997: the relatively strong performance of the labour market has led to the entry of initially less productive marginal workers.



Section 2.4

Promoting world-class science and innovation

Introduction

2.18 Science and innovation benefit the UK. They increase productivity and raise the quality of life. The Department is working to create a supportive environment for the development of ideas through a skilled and flexible workforce, a strong science and research base and a balanced attitude to risk and reward so that British business and public services can successfully innovate: exploiting ideas, wherever they come from.

2.19 The Department needs to do this if the UK is to remain globally competitive. Businesses can be successful in a global economy if they use and provide effective and efficient processes, products and services, for which science and innovation are essential.

2.20 In 2004 the Government outlined its vision for science and innovation over the next decade with the overall ambition to make the UK one of the most competitive locations for science, R&D and innovation in the world. Since its publication in 2004, significant progress has been made in delivering on the measures set out in the “10-Year Science and Innovation Investment Framework”.⁵

Key achievements 2006-07

- Continued high performance of UK science research, second in the world only to the US on citation scores. Lead G8 on productivity and efficiency measures (see page 26)
- (With DfES) £500 million investment per year in university science research infrastructure (see page 35)
- Prospectus published setting out plans to establish the Energy Technologies Institute, a public-private partnership on developing low carbon technologies (see page 34)
- The £260 million Diamond Synchrotron opened – the largest scientific facility built in the UK for 30 years (see page 34)
- The creation of the Office of Science and Innovation (OSI) (see page 33)
- Agreement to establish the Science and Technology Facilities Council (STFC) to improve the strategic management of public investment in large research facilities (see page 33)
- Agreement to establish the Technology Strategy Board as a Non-Departmental Public Body to support and encourage investment in and use of technology across all sectors of the UK economy (see page 39)
- The creation of the Office of Strategic Co-ordination of Health Research (OSCHR), following Sir David Cooksey's report on UK health research, to provide a unified UK approach to health research (see page 34)
- £100 million per year is being invested in implementing the key recommendations of the Roberts Review on the supply of scientists and engineers (see page 32)
- Winning our EU partners over to an excellence-based approach to the new €53 billion Seventh Framework Programme for R&D (see page 37)
- Working with the Department of Health to explain to Parliament the draft Human Tissues and Embryos Bill, which enables the UK's leading position in embryo research to continue (see page 36)
- Helping to transform the UK's long-term transport strategy, with substantial economic benefits, through follow-up to the Foresight project on Intelligent Infrastructure Systems (see page 37)
- Launch of Europe's first low earth orbit weather satellite (Metop), which the Department co-funded (see page 41)

2.21 In 2006 we have set out the Next Steps⁶ in taking forward our vision for science and innovation, against the background of increasing global competition for knowledge intensive business activity. The focus is on six key policy areas:

- maximising the impact of science on innovation;
- maximising the impact of public investment in science and technology on the economy through increasing innovation;
- improving Research Councils' effectiveness;
- supporting excellence in university research;
- supporting world-class health research; and
- improving the supply of scientists.

2.22 Science and innovation are not only key drivers of wealth creation; they also underpin evidence-based policy development, improved service delivery and effective international diplomacy. The Government Chief Scientific Adviser leads in ensuring that science and research, as well as expert and independent advice, are managed and used to best effect across Government.

2.23 The Department's settlement for the Science Budget under the 2007 Comprehensive Spending Review (CSR) was announced at the Budget in March. It provides for annual growth in the Science Budget of 2.7% in real terms for the three years 2008-09 to 2010-11. This is consistent with the commitment set out in the 10-Year Science and Innovation Framework 2004 for spend on science to grow at least in line with the economy until 2014. The successful early settlement on the Science Budget will enable the Department to meet a range of important priorities, including further investment to support excellent research, increasing the economic impact of the science base and implementing the Cooksey Review.⁷ The Government also announced plans for Research Councils to increase their collaboration with the Technology Strategy Board.

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SR04 PSA 2 – Science and innovation**On course**

"Improve the relative international performance of the UK research base and increase the overall innovation performance of the UK economy, making continued progress to 2008, including through effective knowledge transfer amongst universities, research institutions and business."

2.24 Overall progress remains on course though significant challenges still remain, particularly in raising business R&D and increasing the supply of science, engineering and mathematics skills available to the economy. Progress against this target is measured using a range of 25 indicators across five broad attributes of the science and innovation system.⁸

1. World-class research at the strongest centres of excellence in the UK**Current position**

2.25 Progress against this attribute is judged against a basket of six indicators including aspects of scientific excellence, productivity and development of trained researchers. These indicators are derived from Evidence Ltd's international benchmarking study into the performance of the UK science and engineering base.⁹ The latest data (2005) shows the UK continuing to head the G8 on citation productivity measures.

Figure 2.3 World citations¹⁰

Indicator	2002	2003	2004	2005	2006 Target
Share of world citations	11.9%	11.9%	12.2%	11.9%	11.5%
Share of world citations in each of the nine broad science disciplines	Top 3 in 7	Top 3 in 7	Top 3 in 7	Top 3 in 7 ¹¹	Top 3 in 7 out of 9
Researchers per 1000 workforce	5.8	5.9	5.9	5.8	6.3
Citations per £1 of publicly performed R&D	Lead G8	Lead G8	Lead G8	Lead G8	Lead G8
Citations relative to GDP	Lead G8	Lead G8	Lead G8	Lead G8	Lead G8
Citations per researcher	Lead G8	Lead G8	Lead G8	Lead G8	Lead G8

Factors affecting performance

2.26 There are a number of external factors which affect performance, not least the increasing competition for scientific excellence from the UK's traditional G8 rivals and the rapid development of China and India. The Government has more than doubled the Science Budget over the past decade to provide the support for UK researchers to meet this

challenge. However, due to the significant time lags between research project initiation, publication of findings and subsequent accrual of citations, the effect of this increased investment takes time to work itself fully through the system. Recent trends on citations and productivity, however, continue to be extremely encouraging.

2. Sustainable and financially robust universities and public research institutes

Current position

2.27 The methodology for measuring progress on this attribute was agreed in 2006-07.

Universities (HEIs)

2.28 There are two elements to the monitoring arrangements as regards HEIs: institutional frameworks (or statements) towards achieving long-term sustainability, and a related set of 19 "trigger metrics". The UK Higher Education Funding Councils carry out biennial reviews of these two elements to form a view on the sustainability of the "adaptive capacity" of HEIs (i.e. how they manage the key resources money, people, equipment and buildings in response to change).

2.29 The UK Higher Education Funding Councils published their first report, "Monitoring financial sustainability in UK HEIs", in April 2006. The key findings from the initial report are positive. In 2003-04, only 0.7% of research income was being directed to institutions where there were some concerns over long-term sustainability. None of this research income could be considered as being directed to institutions with a research-intensive profile.

2.30 This result will be used as a baseline for future reports. The next assessment by the UK Higher Education Funding Councils is expected in 2008.

Public Sector Research Establishments (PSREs)

2.31 In order to assess the position as regards PSREs annual monitoring exercises on PSRE sustainability are carried out by the Office of Science and Innovation within the Department. The assessments are based on a basket of qualitative indicators covering business, governance and management, financial management, income profile, physical infrastructure and staff, and overall sustainability.

2.32 The first exercise, covering 2005, has been completed,¹² with a note on the outcomes being published to coincide with the Second Annual Report on the Science and Innovation Investment Framework: 2004 to 2014. This monitoring identified concerns about sustainability in about a third of PSREs and helped identify the issues to be addressed to maintain research capability.

Factors affecting performance

2.33 Between 1999 and 2007 the Government has invested over £2 billion in university research infrastructure to update and renew university science facilities and buildings. Evidence that this investment is starting to take effect can be seen in the positive trajectories towards sustainability outlined in the Higher Education Funding Councils' first report (mentioned above) and in a report by JM Consulting to the Higher Education Funding Council for England of

September 2006 ("Future needs for capital funding in higher education").¹³ The impact of recent policy, e.g. Research Councils to pay 80% of the full economic costs of the research they commission, will take some time to have a further impact on these trajectories.

2.34 Please also refer to the report on "The research base" on page 32 below.

3. Greater responsiveness of the research base to the needs of the economy and public services

Current position

2.35 Progress against this attribute is measured by an increase in a basket of indicators from the Higher Education Business and Community Interaction Survey (HEBCI). The latest available data (covering academic year 2003-04) continues to indicate an upward trend in the majority of measures.

Figure 2.4 HEBCI¹⁴

Indicator – HEIs ¹⁵	2000-01	2001-02	2002-03	2003-04
Number of new patent applications filed by Higher Education Institutes (HEIs)	896	960	1,222	1,308
Number of patents granted	250	198	377	463
Number of licensing agreements	728	615	758	2,256
Income from licensing intellectual property (£ million)	18.40	47.00	37.08	38.23
Number of spin-outs	248	213	197	167
Proportion of members of HEI governing bodies drawn from the business sector	34%	36%	34%	34%
Income from business (value of consultancy contracts) (£ million)	103.5	122.2	168.15	210.87
Number of full time equivalent staff employed in commercialisation/ industrial liaison offices	1,538	1,836	2,283	2,706

2.36 Progress against this attribute can now also be measured for PSREs through the PSRE Knowledge Transfer Survey. Early trends show an upward movement in the majority of indicators over the two years so far covered.

Figure 2.5 PSRE Knowledge Transfer Survey

Indicator – Public Sector Research Establishments	2003-04	2004-05
Business representatives on governing bodies	175	214
FTE staff employed in commercialisation offices	385	368
Number of patent applications	316	335
Number of patents granted	228	148
Number of licensing agreements	621	1,673
Income from IP licensing (£ million)	33	46
Number of spin-outs	69	84
Income from business (£ million)	73	88

Factors affecting performance

2.37 Since 1999, Government has provided researchers and businesses with support to work together and drive innovation. This support aims to improve the record in the UK of successfully commercialising research. Over £486 million has been allocated from the Science Budget for knowledge transfer and university-

business and PSRE-business interaction until March 2007. Data from the latest HECI Survey and PSRE Knowledge Transfer Survey indicates that these initiatives have made a real and sustained impact.

2.38 Please also refer to the report on "The research base" on page 32 below.

4. Increasing business investment in R&D and increased business engagement

Current position

2.39 The target for overall performance is to narrow the gap with the UK's leading international competitors. There are seven indicators for progress against this target. Two of the indicators – on business enterprise research and development expenditure (BERD), and on UK patenting – are available annually with a lag of approximately ten to twelve months.

Figure 2.6 Business R&D as share of GDP¹⁶

	1988	1993	1998	1999	2000	2001	2002	2003	2004	2005
Canada	0.77	0.9	1.08	1.08	1.16	1.27	1.09	1.03	0.98	1.03
France	1.33	1.48	1.35	1.38	1.36	1.41	1.43	1.36	1.36	N/A
Germany	2.02	1.65	1.57	1.7	1.75	1.75	1.75	1.73	1.75	N/A
Italy	0.7	0.6	0.52	0.51	0.53	0.55	0.54	0.55	0.55	0.56
Japan	1.9	1.87	2.1	2.1	2.12	2.26	2.32	2.36	2.37	N/A
UK	1.40	1.33	1.17	1.23	1.20	1.19	1.17	1.12	1.08	1.08
US	1.92	1.78	1.95	1.98	2.04	1.99	1.87	1.81	1.79	N/A
OECD average	1.55	1.42	1.49	1.52	1.56	1.58	1.54	1.51	1.53	N/A

2.40 UK BERD figures for 2001 to 2004 have been significantly revised by the ONS in light of new information. BERD as a proportion of GDP was 1.08% in 2005, in line with the revised value of the previous year. The revised figures show that BERD¹⁷ in real terms fell in 2003 and 2004, resulting in a decline in the ratio in 2003 from 1.17% to 1.12% of GDP, and in 2004 from 1.12% to 1.08%.

2.41 In 2005, total R&D spending performed in UK businesses rose to £13.4 billion. This is a 3% increase – in real terms – on the £13.1 billion in 2004 (a 5% increase in cash terms).¹⁸ The increase in the real value in 2005 represents a welcome revival of the real value of R&D spending after two years of decline.

Figure 2.7 Patent grants at the US Patent Office per million population¹⁹

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	change 95-05
USA	208.3	225.8	225.3	289.7	299.4	300.2	306.0	300.7	301.0	285.7	250.6	20.3%
Germany	80.9	83.6	85.5	111.1	114.2	124.8	136.9	137.1	138.9	130.7	109.6	35.5%
France	47.5	47.0	49.6	61.5	63.4	63.2	66.5	65.6	62.6	54.7	46.3	-2.4%
UK	43.0	42.6	46.4	59.7	61.4	62.6	67.3	64.9	61.2	58.0	52.4	21.7%
Italy	19.2	21.1	22.1	28.1	26.4	29.9	30.3	30.8	29.9	27.6	22.5	17.2%

2.42 Falls in the patenting rate from 2003 were experienced by all countries in the table above; this may be largely due to administrative and legal delays experienced in the US Patent Office. The UK's patenting rate has remained relatively robust in 2005, and its growth from 1995 is second only to Germany.

Innovation in the market

2.43 R&D and patents are not the only measures of business innovation. The UK's strengths in knowledge-intensive services and creative industries – where innovation is less likely to be picked up in indicators such as R&D – probably mean that the UK's innovation performance has been under-stated by R&D based indicators. Other measures are derived from the Community Innovation Survey (CIS). The 2005 CIS, covering the period 2002 to 2004, has shown a significant improvement in headline innovation indicators for the UK.

Figure 2.8 CIS

Indicator	2001	2005
Percentage of establishments that had introduced a new product, service or process improvement in the three years preceding the survey:		
● product	18%	29%
● process	15%	19%
Average percentage of turnover in establishments that was accounted for by new or significantly improved products and services in the three years preceding the survey	26%	41%
Percentage of establishments that were "innovation active" in the three years preceding the survey	48%	62%
Employment of qualified scientists and engineers in business	6%	7.4%
Proportion of businesses that collaborate with HEIs	2.6%	5.2%

2.44 The Community Innovation Survey also provides international comparisons.²⁰ The gap between the UK and other major economies on innovation indicators has closed or, in some cases, been eliminated since the previous innovation survey. For example, in product innovation (goods and services) indicators show the UK outperforming France, Italy and the Netherlands and similar to Finland. Germany is still ahead of all but there are statistical reasons for thinking their results are over-optimistic. UK firms fare less well on process innovation against their European competitors but there has still been an increase in activity.

Figure 2.9 Proportion of enterprises with **product** innovations 2002-2004
All enterprises

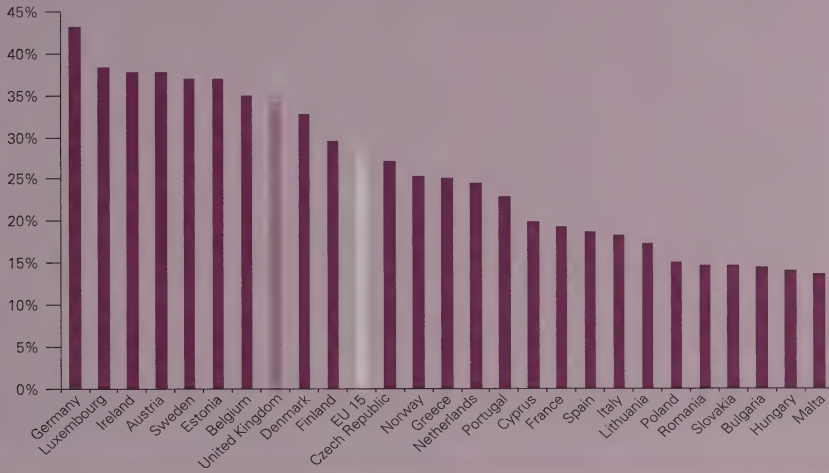
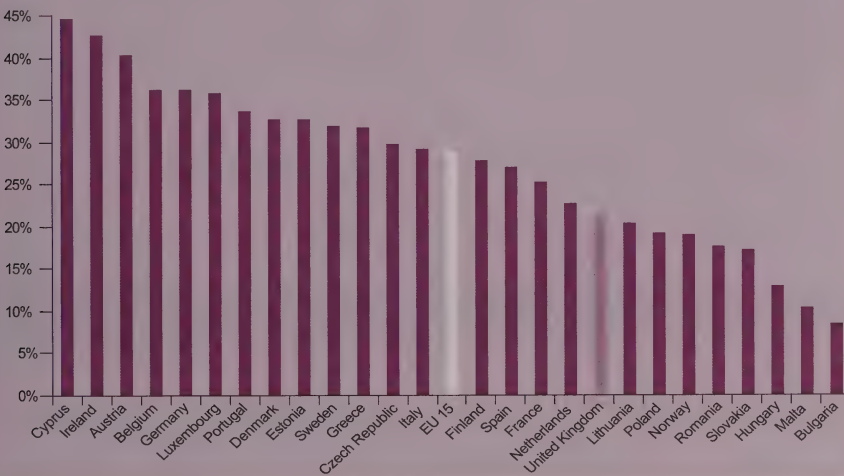


Figure 2.10 Proportion of enterprises with **process** innovations 2002-2004
All enterprises



Factors affecting performance

2.45 On R&D, several studies (e.g. R&D Scoreboard,²¹ OECD review of UK²² and DTI economics paper no 11²³) have shown that one of the most important factors influencing the long-term trend of a country's Business Enterprise Research and Development to GDP ratio is its industrial structure. This tends to change slowly over time and the direction of that change can be hard to predict. Short-term changes in the ratio (such as the 2004 drop for

UK figures) can be due to unrelated factors such as the cyclical nature of some business sectors.

2.46 As regards the international comparisons, it is notable that many smaller countries and new member states of the EU record relatively high shares of businesses with innovation, especially in organisational and marketing innovation. This mostly reflects a process of catching up with the more advanced economies, rather than indicating that effective innovation in these countries is ahead of the UK.

5. A more responsive supply of science, technology, engineering and maths skills to the economy

Current position

2.47 On the two indicators for this attribute the target is:

- to increase the numbers of science students receiving enterprise training; and
- for the UK to maintain its international ranking (second place) within the G8 countries for PhDs awarded per head of population.

2.48 In 2004 (the most recently available data), the UK lay second (behind Germany) within the G8 for PhDs awarded per head of population.

Figure 2.11

Indicator ²⁴	2001	2002	2003	2004
Number of science and engineering students receiving enterprise training	11,143 ²⁵	7,908	N/A	N/A
PhDs awarded per 1,000 population	0.24	0.24	0.25	0.26

Factors affecting performance

2.49 The Government is investing £100 million per year to implement the key recommendations of the Roberts Review²⁶ on the supply of scientists and engineers with regard to

improving significantly the pay and training offered to Research Council PhD students and postdoctoral researchers.

Business plan objective: the research base

2.50 The UK's research base is its universities and large public research institutions – the academic science and technology resources from which its industry draws new knowledge. This business plan objective is aimed at improving the relative performance of the UK research base and its use by Government and society.

Plans for 2006-07	Progress in 2006-07
Continue to implement the 10-year framework including taking forward the consultation and proposals outlined in the recently published Next Steps document showing an overall increase against the measures set out in the document	<p>10-year investment framework</p> <p>2.51 Progress on the implementation of the 10-year investment framework is published annually²⁷ and the latest report was published in July 2006.²⁸ The Department has achieved a number of important developments over the past year including:</p> <ul style="list-style-type: none"> the creation of the Office of Science and Innovation (OSI) bringing responsibility for science and innovation in Central Government together for the first time – the House of Commons Science and Technology Select Committee noting this as a particular success;²⁹ the creation of a new Research Council, the Science and Technology Facilities Council (STFC), that came into effect on 1 April 2007,³⁰ integrating large facilities operations – figure 2.12 below gives an overview of large facilities and Government funding; and creation of a substantial new public-private partnership – the Energy Technologies Institute³¹ (see also section 2.7 (energy) and below)

Figure 2.12 – Details of projects earmarked for funding from the Large Facilities Capital Fund (LFCF) from the 2005 RCUK Large Facilities Roadmap

	Lead Council	Large Facilities Capital Fund allocation (£ million)	Research Council Capital Funding (£ million)	Other Capital Funding (£ million)	Total Capital Budget (£ million)
European X-Ray Free Electron Laser (XFEL)	CCLRC	31.5	0	618.5	650
European High Performance Computing Service	EPSRC	44.8	19.2	327	391
Household Panel Survey	ESRC	12.5	17.5	0	30
ISIS Second Target Station – second suite of instruments	CCLRC	21.8	68.2	0	90
Oceanographic Research Ship	NERC	38.5	16.5	0	55
Total		149.1	121.4	945.5	1216

Notes:

- The X-Fel Project is being lead by Germany which will bear 60% of the construction cost. It is planned that other countries will contribute the remainder of the funds with the UK providing 11% of the total non-German contribution.
- The European high performance computer project plans to share project costs of £192 million between the UK, France and Germany with the balance of around £200 million coming from the European Commission and Industry.

Plans for 2006-07

Invest in the UK research base to ensure its continued performance to a high standard, and in particular being second to the US in the G7

Progress in 2006-07

Please also refer to PSA 2.1 on page 26 above.

2.52 UK research continues to be strong across scientific disciplines. The UK is second only to the US in seven of the ten main disciplines, and has moved ahead of the US on impact for pre-clinical and biological sciences. The UK continues to head the G8 on research productivity.

The Research Councils

2.53 Research Council funded projects continue to have high impact. During 2006-07:

- The Diamond Synchrotron opened for business and scientific users in January 2007.³² It enables scientists to look inside matter at the molecular and atomic scale, and is the largest scientific facility to be built in the UK for a generation. Phase 2 of the work remains on time and on budget;³³



Diamond Synchrotron, October 2006 (courtesy of Diamond Light Source Ltd)

- BBSRC-funded scientists at Cambridge University proposed a new model to explain Salmonella infection to help develop new vaccines;
- EPSRC-funded scientists at Sheffield University developed a revolutionary dissolvable scaffold for growing new areas of skin to treat burns and ulcers; and
- The UK Stem Cell Initiative continues to make good progress and funding for the Stem Cell Bank has been agreed and the Stem Cell Network established.³⁴

2.54 Further information regarding the Research Councils will be available on the Department's website at the time of or shortly after the publication of this Report. This includes information on Research Councils' long-term projects and expenditure. See www.dti.gov.uk/science/science-funding/budget/page28923.html

Cooksey Review

2.55 The Department has begun implementing the recommendations set out in the Cooksey review, published in December 2006, including establishing the Office of Strategic Coordination of Health Research (OSCHR)

Energy Technologies Institute

2.56 The Energy Technologies Institute (ETI) will begin operations in 2007-08, playing a major role in technology developments internationally in support of the UK's climate change goals. The Secretary of State published a prospectus in September 2006.³⁵ The original four sponsor companies (Shell, BP, EDF and E.ON UK) have been joined by Rolls-Royce and Caterpillar. See also page 97 (energy).

Plans for 2006-07

Continue work to ensure that the research base is robust and financially sustainable, with a leading edge research infrastructure

Progress in 2006-07**Financial sustainability**

2.57 Moving the UK research base on to a financially sustainable basis is a longer-term policy goal with two key elements: reducing the backlog of investment in scientific facilities and funding research on the basis of full economic cost (FEC).

2.58 Universities across the UK continue to address the backlog in investment in buildings and research equipment through the third round of funding from the Science Research Investment Fund (SRIF) – a joint OSI/DfES fund which provides annually £500 million of capital funding to universities. An independent review of the effectiveness of SRIF has shown that it has had a significant impact cutting the research investment backlog from £4 billion to £1.2 billion.

2.59 From September 2005 there has been a major change in the basis of research funding at universities by Research Councils, with the issue of grants calculated on the basis of 80% of the full economic cost of the research. The Science Budget provided an extra £120 million in 2006-07 to cover the additional cost.

2.60 The four higher education funding councils completed their first assessment of the sustainability of research at UK universities and found that only a very small number of institutions were currently giving cause for concern. In parallel, OSI completed the first round of the annual monitoring of the sustainability of public sector research establishments (PSREs). This identified concerns in about a third of PSREs and helped identify the issues to be addressed to maintain research capability. See also PSA 2.2 (page 27 above).

UK Research Base has a higher performing, diverse workforce, educating and training more and higher quality scientists and engineers for the UK

Research base workforce

2.61 The Government is making sustained progress with this agenda. The Department's contribution includes:

- Working through the Research Councils to increase the number of researchers by increasing PhD stipends, increasing the length of PhDs, improving PhD training, and funding 800 new academic fellowships in 79 UK universities – as recommended in the Roberts' report.²⁶ The positive impacts of this work has been reported in two independent studies.³⁶
- Working with DfES to deliver new commitments to drive up participation and attainment in post-16 science and maths education.³⁷
- The STEM programme. This aims to ensure that support for science, technology, engineering and mathematics (STEM) – in particular enhancement and enrichment activities for young people and continual professional development of teachers – is delivered in the most effective way to every school, college, learning provider and learner. The STEM Programme Report was published in October 2006. Implementation of its recommendations will ensure that support for STEM is delivered in an increasingly effective and co-ordinated way.
- Science and Engineering Ambassadors, to enthuse school children about the benefits of science and maths education and careers. During 2006-07 the number of Ambassadors was increased from about 12,000 to 17,000 with a view to meeting the Department's target of 18,000 by March 2008.³⁸

Plans for 2006-07	Progress in 2006-07
	<ul style="list-style-type: none"> Continuing sponsorship of the UK resource centre for women in science, engineering and technology³⁹ (launched in September 2004). £1.5 million to improve engagement of under-represented groups in science education.
<p>Increase the level of knowledge transfer from the Research Base as measured against a basket of metrics set out in the 10-year Science and Innovation investment framework</p>	<p>Knowledge transfer</p> <p>2.62 There were substantial increases in 2006 in the level of knowledge transfer between the research base and the business community.⁴⁰ This builds on increases in earlier years. For example the most recent data shows year-on-year increases in income from businesses of 25% in universities and 20% in Public Sector Research Establishments (see PSA 2.3, page 28 for more detail on this data).</p> <p>2.63 Many examples of successful knowledge transfer from the research base were described in a booklet published in 2006,⁴¹ for instance development of new cost-reducing materials for aircraft. Research Councils have placed much more emphasis on knowledge transfer and economic impact following independent reviews of their work in this area.</p>
<p>Support a range of activities to foster a generally positive attitude towards the development, regulation and use of science, engineering and technology, as evidenced in relation to the measures recorded in the 2005 MORI survey, and other commissioned work</p>	<p>2.64 The nation's attitude to science remains positive and is improving in areas such as specific new technologies.⁴² The Department's contribution includes the success of its flagship Sciencewise public engagement programme.⁴³ This includes projects on risk and on nanotechnology. The Department has also recently introduced projects on the future challenges of emerging science and technology⁴⁴ and brain science, addiction & drugs.⁴⁵ The Department will shortly be working with the Human Fertilisation and Embryology Authority and the Research Councils on two new public engagement projects on stem cell research in response to the UK Stem Cell Initiative report.⁴⁶ In the coming year the Department will commission a further survey to establish how public attitudes are developing, with results expected early 2008.</p> <p>2.65 National Science and Engineering 2007⁴⁷ (funded by the Department) was the most successful yet, with over 2,500 registered events (an increase of 17%); and 780,000 people taking part nationwide.</p>
<p>Work with other Government Departments, increasing effectiveness against the measures set out in the 10-year framework to make better use of science and scientific advice in making and delivering policy</p>	<p>Scientific advice across Government</p> <p>2.66 OSI and the Government Chief Scientific Adviser have ensured that high quality science advice has contributed effectively to a range of important issues including:</p> <ul style="list-style-type: none"> the Stern Review of the economics of climate change;⁴⁸ the Energy Review and Energy White Paper (see section 2.7); HM Treasury's Comprehensive Spending Review paper on the key long term challenges facing the UK;⁴⁹ the detection and identification of infectious diseases (where a Foresight project,⁵⁰ completed in April 2006, was taken up by the Russian G8 Presidency); the health, safety and environmental aspects of nanotechnology, on which the Council for Science and Technology completed a major review;⁵¹ and an inquiry by the House of Commons Science and Technology Select Committee into the use for research of embryos containing human and animal material.

Plans for 2006-07

Progress in 2006-07

2.67 The Foresight project on Intelligent Infrastructure Systems (IIS) launched its findings, reports and action plan on 26 January 2006. Since that time the Government, led by DfT and the Department, has been acting on its findings. In particular, the £12 million Future Intelligent Transport Systems initiative is funded jointly by the Department, DfT, the Engineering and Physical Sciences Research Council and business, and is bringing together UK industry and universities to address key research issues for the longer-term development of the UK transport system. Also, DfT has developed a Future Infrastructures Forum with OSI, which will draw on contributions from Government departments, Local Authorities, the scientific and research base and other stakeholders to take forward the work of the IIS project.

2.68 Reviews of the management and use of science in Defra, the Health and Safety Executive and Communities and Local Government were completed in 2006-07, with a view to improvements and spreading best practice.⁵² In addition scientific and societal scans commissioned by the Horizon Scanning Centre were published,⁵³ and gained wide global press coverage.

Help UK researchers, businesses and Government to gain greater benefit from international partnerships and programmes in science and technology that will be evidenced by analysis of collaborations in international programmes and of relevant international bibliometric databases

Global Science and Innovation Forum

2.69 The Global Science and Innovation Forum (GSIF) strategy for international engagement in research and development was published in October 2006.⁵⁴ The strategy fulfils a commitment under the 10-year science and innovation investment framework and responds to the increasing importance of international science and innovation for the UK and in addressing global challenges. Implementation of the strategy's seven recommendations will be a key focus of GSIF's work in 2007.

EU R&D Programme

2.70 The European Union's Seventh R&D Framework Programme was launched in December 2006,⁵⁵ following an intense period of negotiation. The programme will cover the period 2007-2013 and have a budget of €53 billion. The UK played a major part in shaping the final programme and achieved all of its key negotiating aims, including the establishment of an autonomous European Research Council and allocation of the bulk of funding to user-driven research in support of business competitiveness.

Business plan objective: knowledge transfer and innovation

2.71 This objective is to promote effective transfer of knowledge to improve UK innovation performance and accelerate business exploitation of science and new and existing technologies.

Plans for 2006-07

Progress in 2006-07

Following the creation of the Office of Science and Innovation the approach for reporting performance on innovation activities was reviewed, and the following new key outcomes and activities were adopted.

Improve overall innovation performance of the UK economy and maintain effective measurement technology infrastructure

2.72 The overall innovation performance of the UK economy is measured in a number of ways, one of which is the Community Innovation Survey (CIS) – see PSA 2.4, page 30.

Technology Programme

2.73 The business-led Technology Strategy Board published its second annual report in November 2006⁵⁶ and continues to oversee the Technology Programme.

2.74 Within the Technology Programme, Innovation Platforms bring together business and Government for consultation around major societal challenges. The aim is to generate more innovative solutions through the integration of a range of technologies along with better co-ordination of policy and regulation leading to more informed public procurement. From this, decisions are made on the technologies supported through collaborative R&D and Knowledge Transfer Networks (KTNs are web-based platforms provided by the Department to facilitate knowledge transfer of technology through networking). Together with other departments the Department approved three new Innovation Platforms:

- assisted living (Department of Health);
- low carbon vehicles (Department for Transport); and
- low environmental impact buildings (Department of Communities and Local Government).

National Measurement System and National Physical Laboratory

2.75 The National Measurement System (NMS) ensures that UK users have access to world-class measurement standards. Within the NMS, the National Physical Laboratory (NPL) has made significant advances in time measurement bringing the next generation of atomic clocks closer to direct use by industry.⁵⁷

National Weights and Measures Laboratory

2.76 The National Weights and Measures Laboratory (NWML) implemented the Measuring Instruments Directive by the EU Commission deadline of 30 October 2006. The Laboratory has become one of the first Notified Bodies under the Directive in Europe, providing certification for manufacturers of measuring instruments in the UK and around the globe. See page 41 for further information about the NWML.

Plans for 2006-07**Progress in 2006-07**

To raise the innovative performance of UK firms by providing effective and business-friendly products supporting knowledge transfer amongst universities, research institutions and business

Knowledge Transfer Partnerships

2.77 Knowledge Transfer Partnerships are Europe's leading programme helping businesses to improve their competitiveness and productivity through the better use of knowledge, technology and skills. Each partnership employs one or more high calibre Associates (recently qualified people) to work on a project which is core to the strategic development of the business. Due to strong demand from business, over 1,060 Knowledge Transfer Partnerships were put in place (as at December 2006), the highest number of partnerships in their 30-year history. The scheme is part-funded by the Government, led by the Department. During 2006-07, £30 million⁵⁸ of public sector contribution was augmented by £55 million from the private sector.

2.78 The Department facilitated 1,270 international meetings between potential technology partnerships and reported 89 international partnership deals between April 2006 and December 2006.

Standardisation

2.79 Standardisation supports innovation and growth: a DTI study has found that it contributed 13% of the growth in UK labour productivity since 1945. The National Standardisation Strategic Framework (NSSF) has strengthened the standardisation infrastructure. NSSF facilitation of standards has enabled the UK to play leading roles in international standardisation relating to nanotechnology, regenerative medicine and biometrics. The NSSF programme completed on track (March 2007) and within budget.

Gowers Review

2.80 The Gowers Review of the Intellectual Property Framework,⁵⁹ published in December 2006, considered the way in which IP is awarded, the complexity of the IP system and whether the IP framework properly reflects the digital environment. The outcome of the Review was that it recognised the important role IP has to play in the success of the UK economy. It found that the UK has a fundamentally strong intellectual property system and identified areas in which The Patent Office (renamed UK Intellectual Property Office) could further develop its role. The UK Intellectual Property Office will take the recommendations forward in consultation with other Departments. See also page 42 below for further details about UK-IPO.

Develop stronger partnerships with EU, OGDs, RCs and RDAs/DAs

Technology Strategy Board

2.81 The Technology Strategy Board (TSB), initiated in 2004, is now well established and working effectively with a number of Government Departments as well as the Research Councils and RDAs and Devolved Administrations. The focus the TSB brings is starting to have an impact and these organisations are keen to co-ordinate and align activities against the priorities set by the TSB. See below for more details on the TSB

EU

2.82 The UK was successful in influencing the European Commission's proposals on the implementation of a European Institute of Technology (EIT) and on the Commission Communication⁶⁰ publication which highlighted the importance of:

- a patent/IPR strategy to bring into place a comprehensive IPR strategy in 2007 to establish an affordable patent procedure and a European Patent Litigation Agreement; and
- "Joint Technology Initiatives" under the Seventh Framework Programme to realise particularly ambitious research and technology agendas that require high public and private investment at European level.

Plans for 2006-07	Progress in 2006-07
<p>Ensure the Sustainability agenda is at the forefront of policy making across Government and influence better regulation</p>	<p>Sustainable development</p> <p>2.83 Innovation and technology have a role to play in fulfilling the Government's Sustainable Development Strategy. See section 3.5 for details about sustainable development at the Department.</p> <p>Waste Electrical and Electronic Equipment Regulation</p> <p>2.84 The Department has been successful in supporting and implementing Regulations that directly contribute to future sustainability. The Waste Electrical and Electronic Equipment (WEEE) Regulation received ministerial approval in December 2006 following consultations with business, with full producer responsibility due in July 2007. Success has also been achieved with the Restriction of Hazardous Substances Regulation with the permitting of some exemptions to ensure focus on the main contributors to land fill.</p> <p>National Weights and Measures Laboratory</p> <p>2.85 During 2006-07 the NWML received responsibility for enforcement of the Regulations on restriction of the use of certain hazardous substances in electrical and electronic equipment. This builds on NWML's experience of regulatory enforcement generally. The Laboratory's RoHS website received nearly half a million visitors from all over the world in its first year, generating nearly 10 million hits.</p>
<p>Establishment of TSB and Executive NDPB</p>	<p>Technology Strategy Board</p> <p>2.86 Plans are well advanced for the future delivery of the technology support programme at arm's length from central Government. The new Technology Strategy Board was formally inaugurated as an executive non-departmental public body in July 2007.</p>
<p>British National Space Centre (BNSC) partnership to provide increased benefits from space for the UK</p>	<p>British National Space Centre</p> <p>2.87 BNSC continues to develop its strategic framework, in particular by clarifying partner roles and through development of a new UK Space Strategy 2007-10. A written public consultation exercise (February to April 2007) and a consultation event was undertaken. The House of Commons Science and Technology Committee has also been holding a comprehensive Inquiry into UK space policy and is expected publish its report later this summer. The Committee's recommendations, feedback from the BNSC consultation and the evaluation studies will help inform the development of the new Strategy.</p> <p>2.88 BNSC has secured its goals in European Space Agency (ESA) and EU, e.g. through the Ministerially led reform agenda for ESA and increased participation in EC funded programmes. In particular, UK leadership has resulted in a Resolution being brought to ESA Council in June 2006 instructing DG ESA to proceed to the next phases of the ESA reform project. UK has successfully negotiated to have UK space priorities included in the EU's Framework Programme 7 (see also page 37).</p> <p>2.89 In parallel, BNSC has undertaken a successful seminar for UK industry to ensure they are briefed to take up FP7 opportunities relating to space projects. BNSC has also successfully negotiated to ensure its priorities are included in the European Space Policy.</p>

Plans for 2006-07

Progress in 2006-07

2.90 ESA's MetOp, Europe's first polar (lower earth) orbiting satellite dedicated to operational meteorology, was launched in October 2006.



MetOp – A (Courtesy of ESA – AOES Medialab)

2.91 DTI ministers moved to strengthen the UK position in the Galileo programme (Europe's satellite radio navigation programme) to ensure that UK objectives are met. Negotiations on India's participation in Europe's satellite radio navigation programme reached approval in February 2007, ensuring the availability of highest quality services in India as well as cooperation to establish regional augmentation systems based on EGNOS and GALILEO. This agreement is another important step for the development of GALILEO as an international programme and a major milestone in the EU/India partnership.

National Weights and Measures Laboratory

2.92 One of the Department's executive agencies is the National Weights and Measures Laboratory (NWML). The NWML is responsible for ensuring UK measurement is accurate, fair and legal. It has responsibility for: policy on measuring instruments in use for trade; the implementation of European Directives on measuring instruments and providing the focus for legal metrology in the UK; the examination and approval of new weighing and measuring equipment to be used for trade; and establishing compliance with the requirements of the Weights and Measures Act 1985 and relevant European legislation. NWML took over responsibility for regulation of gas and electricity meters from OFGEM on 13 April 2006. The NWML operates under a net running cost regime. It is free to increase expenditure in line with workload provided that this is recovered by receipts.

2.93 Please refer to the NWML's Annual Report for further details on performance during 2006-07.⁶¹

United Kingdom Intellectual Property Office (UK-IPO – formerly the Patent Office)

2.94 The United Kingdom Intellectual Property Office is an executive agency of the Department. It is the Government body responsible for granting Intellectual Property (IP) rights in the United Kingdom. These rights include: patents, designs, trade marks and copyright. It has responsibility for: ensuring that the intellectual property system works to industry's benefit; making sure that the property rights issued under its authority carry respected validity in the marketplace, and promoting awareness of the value of intellectual property and its exploitation.

2.95 As of April 2007, the Patent Office changed its name to UK Intellectual Property Office, in accordance with a recommendation from the Gowers Review (see page 39 above). This reflects the recognition of the importance of all forms of intellectual property for successful and competitive UK businesses.

2.96 The UK-IPO is a Trading Fund and as such its expenditure does not feature on the Department's Request for Resources. It is required to service its debt and pay a dividend, and its annual administration costs are entirely covered by fee income. The Office is working to an efficiency target, set in the Department's efficiency technical note, of reduced total current expenditure on the operations of the trading fund compared with the baseline of the Corporate Plan for 2004-05. The Office is also working towards other challenging customer service standards and Ministerial targets. More details of performance against targets can be found on UK-IPO's website.⁶²

Figure 2.13 Expenditure on Science and innovation

	2003-04 Outturn	2004-05 Outturn	2005-06 Outturn	2006-07 Outturn	2007-08 Plans
Science	2,305.3	2,608.5	3,257.2	3,270.8	3,494.8
<i>of which:</i>					
Arts and Humanities Research Council			65.7	89.0	97.3
Biotechnology and Biological Sciences Research Council	269.1	296.1	318.2	373.5	395.1
Economic and Social Research Council	89.6	106.0	266.6	145.6	152.2
Engineering and Physical Sciences Research Council	375.5	484.4	554.8	644.9	734.9
Medical Research Council	417.2	421.3	502.6	544.7	559.5
Natural Environment Research Council	294.4	316.5	373.2	373.4	403.8
Particle Physics and Astronomy Research Council	272.7	296.5	333.5	331.7	
Council for the Central Laboratory of the Research Councils	117.8	162.5	211.4	216.8	
Science and Technology Facilities Council					617.8
Research Councils' Pensions Scheme	29.7	42.3	15.1	17.2	18.1
Royal Society	29.4	31.2	32.6	36.4	41.1
Royal Academy of Engineering	5.3	5.6	5.8	7.9	9.8
British Academy	–	–	14.0	16.9	21.4
Diamond Synchrotron	36.8	85.0	74.0	44.7	
Joint Infrastructure Fund	43.6	24.6	-0.7	1.0	
Science Research Investment Fund	262.2	206.3	382.1	305.3	300.0
Higher Education Innovation Fund	25.5	69.8	64.9	78.4	85.0
Other minor Science programmes	30.0	43.5	35.2	35.7	39.7
Resource and Capital yet to be allocated				0	10.6
Administration	6.4	16.9	8.0	7.9	8.5
Knowledge Transfer and Innovation	54.0	228.5	225.7	292.1	341.3
<i>of which:</i>					
Knowledge Transfer (formerly industrial exploitation of science)	59.5	172.6	153.9	77.3	57.8
Technology Strategy Activities (formerly part of knowledge transfer)	0	0	38.3	104.9	178.3
Other minor Knowledge Transfer programmes	-47.1	17.4	-4.5	82.0	72.3
Space	41.7	38.5	38.0	27.9	32.9

2.97 The total spend given here for each business plan objective corresponds with the total of the Resource DEL, Resource AME and Capital DEL spend given in tables 2 and 3 in section 6.3. The figures shown as 2007-08 plans reflect the original DTI budgets. These will be allocated to its successor departments created in June 2007 (BERR and DIUS, see section 1.1) in due course.



Section 2.5

Supporting successful business

Introduction

2.98 Generally, businesses succeed through their own efforts. Businesses, not governments, identify market opportunities and exploit them by providing a better product or service than that which currently exists. Firms do this in the expectation that prices charged and revenue received fully reward the work force and generate a profit greater than the firm's cost of capital. The improvements in businesses' competitiveness come from pressure of competition.

2.99 Government, however, can help or hinder business success. Businesses are more likely to invest in skills, physical capital and knowledge if they operate within a stable macro-economic framework. At the level of the individual firm, Government promotes the possibility of business success through investment in science. Laws to protect intellectual property balance the generation of commercial value from its exploitation by the innovating firm with the value of facilitating the wide dissemination of knowledge.

2.100 Successful businesses trade in a vibrant and dynamic economy, one where workers, knowledge and capital can move from relatively unsuccessful businesses to successful firms. Freer movement of resources between firms across industries and regions makes it more likely that firms facing rapid increases in demand for their output have the resources to meet that demand and that marked disparities in regional incomes and growth rates are reduced.

Key achievements 2006-07

- www.supply2.gov.uk launched (web portal for business wishing to win work with Government departments – see page 50)
- Enterprise Week, promoting entrepreneurship to 14-30 year olds (see page 51)
- www.businesslink.gov.uk used by 7.2 million unique visitors (20% increase over last year), see page 51
- Approval of the new Assisted Areas map for the period 2007-2013 (focusing public funding for large companies where it's most needed), see page 57
- UK allocation of €10.6 billion in the new European Structural and Cohesion Fund covering 2007-2013 (see page 57)
- Greater focus on the drivers of productivity and growth in the EU Industrial Policy Agenda (see page 61)
- UK Trade & Investment five-year strategy (see page 63)

2.101 UK business benefits from exposure to international trade in goods and services and cross-border flows of foreign direct investment. Exporting and overseas direct investment allows firms to exploit their specific commercial advantages. Imports are the source of the competitively priced components. Inward investment often embodies the most advanced technology, and productivity-improving working practices.

2.102 Sometimes market failures impede international trade and investment. These both reduce the ability of UK business to exploit fully international markets and can provide barriers to international investors who might otherwise locate in the UK. Effective Government remedies to these market failures can improve the performance of UK based firms and make an important contribution to increasing UK productivity and prosperity. Removing barriers to international markets is particularly important for knowledge-intensive businesses, which need access to overseas markets to maximise returns to innovation and to keep abreast of ideas and technologies.

2.103 UK businesses and households cannot prosper without considered and targeted intervention by government at international, national, subnational and sometimes sectoral levels. But markets and governments can fail. The Department recognises that a shared understanding with business of the consequences of government actions on their performance with what the government is trying to achieve is most likely to reduce the costs of either failure.

A number of PSAs and business plan objectives apply to the Department's work on supporting successful business. Enterprise, regional economic performance and UK Trade & Investment are each covered by a PSA and a BPO – in each case this Report discusses the PSA first, followed by a summary of performance on the business plan objective. In addition the Department reports on a BPO on effective channels with business and a "National Standard" for online business.

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SR04 PSA 6 – Enterprise

Assessment of progress:
set out by sub-target below

“Build an enterprise society in which small firms of all kinds thrive and achieve their potential, with (i) an increase in the number of people considering going into business, (ii) an improvement in the overall productivity of small firms, and (iii) more enterprise in disadvantaged communities.”

2.104 The overall assessment of progress is mostly based on SR02 PSA 6, which was carried forward into SR04. It is too early to make a full assessment of progress in the SR04 period.

SR04 PSA 6 (i) An increase in the number of people considering going into business

Current position: SLIPPAGE

Action to address slippage

Given the time taken to change cultural attitudes, this is a very challenging, long-term target. It is unlikely to be met within the current spending review period. The Government is currently focusing its efforts where it can have the most immediate impact. This includes increasing awareness of enterprise amongst young people, women and ethnic minorities and encouraging the development of their enterprising skills, as detailed below.

2.105 In 2005, 11.6% of adults in England were considering going into business, the same as in 2001. The increase on 2003 (11.3%) is not statistically significant.

2.106 The SR02 target was to increase this to 14% by 2005, so the Department has not met this target. After the 2003 results, it was recognised that the SR02 target was unrealistically challenging, so the target level for SR04 PSA 6 was set at 12.3%. Even the reduced SR04 target of 12.3% requires a change in the intentions of well over 300,000 people.

Factors affecting performance

2.107 Supporting data from the Global Entrepreneurship Monitor show that, in common with other countries, UK entrepreneurship has been fairly static over the last few years. This has allowed the UK to retain third position in the G7, ahead of all other European G7 countries.

2.108 Although there has been little change in rates of adult entrepreneurship, there are a number of encouraging signs that attitudes to entrepreneurship amongst young people are improving. For example:

- the SBS household survey shows that the proportion of 16-24 year olds who are

considering going into business has risen from 14.4% in 2003 to 17.5% in 2005;

- the number of women self-employed in their main job now exceeds 1 million for the first time since the series began in 1984, with over 10,000 women per month becoming self-employed; and
- under-represented ethnic minorities have seen an increase in their self-employment rate, and a narrowing of the gap in rates with other ethnic groups.

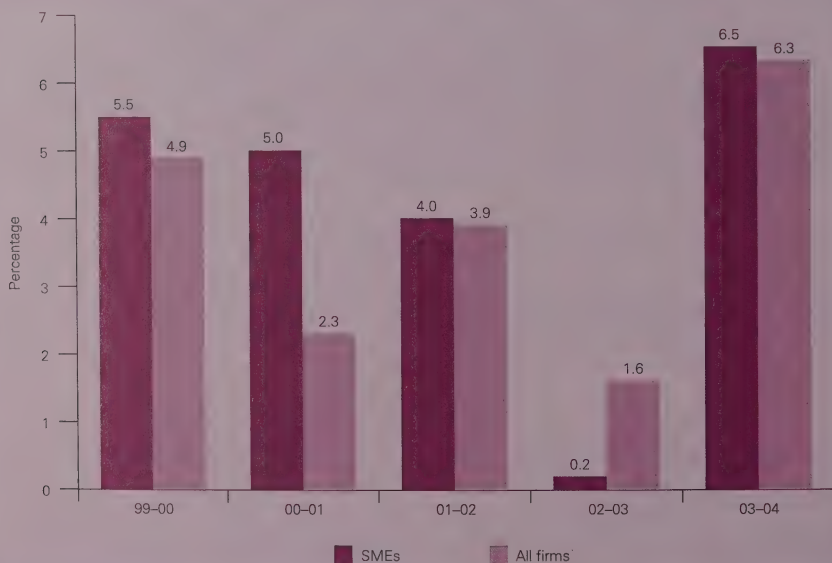
2.109 This reflects the Government's increased focus on policy interventions designed to increase interest in entrepreneurship amongst young people and women, rather than the population as a whole (the focus of the PSA). These include:

- providing funding of £60 million per year to support a new focus on enterprise education for all 14-16 year olds;
- supporting the National Council for Graduate Entrepreneurship (NCGE) and its "Flying Start" business development and acceleration programme;
- providing up to £6 million from the Northern Way "Growth Fund" to provide additional support for enterprise learning for 11-14 year olds in particular schools in the North of England;
- continued support for the "Make Your Mark" campaign and "Enterprise Week" which aim to inspire a more enterprising mind-set amongst 14-30 year olds, from all walks of life, and encourage them to turn their business ideas into reality (see also page 51 below for further details); and
- launch of a new ambassadors' network to support aspiring women entrepreneurs.

SR04 PSA 6 (ii) An improvement in the overall productivity of small firms

Current position: ON COURSE

Figure 2.14 Productivity growth (GVA per employer by size of enterprise, 1999-2004)



2.110 SME productivity growth has exceeded all-firms productivity growth in four out of the last five years for which data is available. The cumulative increase in productivity growth for SMEs also exceeds that for all firms over the last five years. Data up to 2005 will be available shortly.

Factors affecting performance

2.111 There are a number of recent initiatives which may impact on the productivity growth of small firms:

- **UKTI Five-Year Strategy** (see also page 63): recently published and designed to help business to internationalise and contribute to the prosperity of the UK. It is aimed at improving the marketing of the UK and on supporting business to open key emerging markets.
- **Higher Education Innovation Fund (HEIF)**: a programme designed to encourage knowledge transfer in universities and Higher Education. 2006-07 is the programme's third year.
- **SBS Better Regulation work**: work centres on identifying burdens on business with a view to deregulation. See also section 3.6 on better regulation.

• Business Support Simplification

Programme: a programme to increase the use, effectiveness and efficiency of Government support to business by reducing the number of schemes from 3,000 to no more than 100 by 2010. See also page 52 below.

2.112 A combination of lower Gross Value Added growth (2% in SMEs, 5% in large firms) and higher employment growth (1.9% SME, 1.7% large firms) contributed to the low productivity growth in SMEs in 2002-03.

2.113 Even though small firms are still generally less productive than large firms the gap has narrowed over time and in some sectors, such as Business Services, small firms are actually more productive than large.

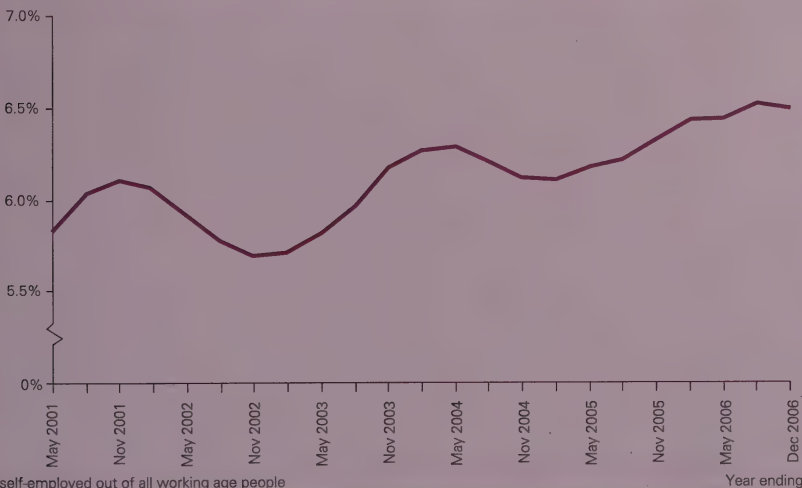
SR04 PSA 6 (iii) More enterprise in disadvantaged communities

Current position: ON COURSE

2.114 The SR2004 target is to increase self-employment rates in the most deprived areas, better capturing activity below the VAT threshold which the SR2002 target was not able to do fully.⁶³ See annex A.2 for details on the SR2002 target.

2.115 In the year ending December 2006, of all the people of working age living in the 15% most deprived wards in England, 6.5% were self-employed. This was the highest rate seen in the last six years. However, in the final assessment, an adjustment for the effect of the economic cycle will have to be taken into account.

Figure 2.15 Self-employment rates¹ in the 15% most deprived wards, England



¹self-employed out of all working age people

2.116 It should be noted, however, that the rise in self-employment in disadvantaged communities has also been accompanied by a rise in self-employment in other areas (10.3% in the year to December 2006, 3.8 percentage points higher), although over the last 24 months the gap has narrowed.

Factors affecting performance

2.117 The reasons for improvements in self-employment rates in disadvantaged areas are not clear, although a number of initiatives at the national level aimed at stimulating enterprise in disadvantaged communities, such as the Phoenix Development Fund, Enterprise Areas, and City Growth Strategies may well have played a role.

2.118 There has also been an increased recognition of the potential role of enterprise in

area-based regeneration by a range of bodies at the regional (Regional Development Agencies (RDAs)) and local level (via local authorities). The new Local Enterprise Growth Initiative (LEGI) should impact on those Neighbourhood Renewal Funding (NRF) areas that receive funding in future years, and RDAs have already been awarded an increase to their funds for the financial years 2006-07 and 2007-08 in recognition of their increased responsibility in this agenda.

Business plan objective: enterprise, growth and business investment

2.119 The Department's Enterprise, Growth and Business Investment objective aims to remove barriers to the creation of new businesses and impediments to the exploitation of enterprise and small business growth. The Department promotes enterprise in disadvantaged communities and amongst disadvantaged groups to make it an attractive and viable option for people from all backgrounds and is committed to ensuring that more businesses that want to innovate and grow are able to.

Plans for 2006-07	Progress in 2006-07
Promote the www.supply2.gov.uk web portal (available through www.businesslink.gov.uk) for businesses wishing to win work with Government Departments	<p>www.supply2.gov.uk</p> <p>2.120 The target was to achieve 10,000 registered suppliers, 1,000 registered buyers, 4,000 small business opportunities and 20,000 visitors per month by July 2006.</p> <p>2.121 The portal went live on 31 March 2006 and exceeded all the targets. By 22 January nearly 36,000 suppliers and over 3,200 buyers were registered on the portal. Over 28,000 opportunities had been advertised through the portal, of which 9,000 were lower value opportunities best suited to small businesses which were previously hard for them to find. The site receives approximately 250,000 hits each month. Almost 32,000 unique visitors used the site in November 2006.</p>
Expand the Enterprise Insight Campaign, including a third Enterprise Week in November 2006, to cover the ambition to grow a business and ensure young people have more information about enterprise	<p>Enterprise Insight</p> <p>2.122 The Small Business Service funds Enterprise Insight (EI) to run the "Make Your Mark" campaign – which aims to create a more enterprising culture amongst the country's young people (aged 14 – 30). The campaign has been expanded through the establishment of Local Enterprise Campaigns in four geographic areas and three sector specific campaign hubs. These aim to mobilise action and develop initiatives at a local and sectoral level respectively. 20,000 people in 3,700 teams took part in the Make Your Mark Challenge (launched on 13 November 2006).</p>

Plans for 2006-07

Progress in 2006-07

Enterprise Week

2.123 Enterprise Week is the annual focal point of the campaign. Enterprise Week 2006 ran from 13 – 19 November, delivering 3,181 events across the UK attended by 500,000 people. In addition to the themed days for Women's Enterprise and Social Enterprise, Ideas at Work day (which included a particular focus on innovation and manufacturing) was run for the first time on Tuesday 14 November. Additionally, Enterprise Week was further expanded this year with the SpeedNetwork the Nation (on Friday 17 November) which saw hundreds of simultaneous speednetworking events take place in schools, colleges, businesses, universities etc – connecting people and ideas across the country.

2.124 See also PSA 6.i (page 48) above

Implement a refreshed action plan to deliver the Government's Social Enterprise Strategy for growth in social enterprise

Social Enterprise

2.125 The Office of the Third Sector launched an action plan for social enterprise "Scaling New Heights" on 16 November.⁶⁴ This sets out four ways in which government can help create a conducive environment for social enterprises:

- foster a culture of social enterprise, increasing understanding of social enterprise within the education system and raising awareness of the impact of social enterprise;
- ensure the right information and advice is available to those running social enterprise;
- enable social enterprise to access appropriate finance;
- enable social enterprise to work with government, either by doing business directly or working together on policy.

Lead work across government to simplify business support and build on the success of www.businesslink.gov.uk in line with Cabinet Office's Transformational Government Strategy, and reduce the number of business support services from around 3,000 now to no more than 100 by 2010

Business Link

2.126 Business Link offers help and support to anyone running a business or thinking of starting a business. The Business Link service has been a real success for the Department. A strong partnership between the RDAs and SBS has been an essential enabler of this success and this partnership is recognised as a model of national and regional collaboration and cooperation.

2.127 Since April 2005 SBS has been working with the RDAs to transform the service through a new and more effective business model. Against a background of considerable change the performance of Business Link has continued to rise steadily. The number of customers helped has risen to 792,741 in the 12 months ending March 2007, an increase of more than 7% on the same period last year and more than double the number helped five years ago. Customer satisfaction remains consistently high at nearly 91%.

2.128 The award-winning Business Link national website (www.businesslink.gov.uk) continues to attract an increasing number of customers with over 7 million visits in the past 12 months. This success has enabled Business Link to be recognised as the primary channel for accessing business support and has resulted in businesslink.gov.uk being positioned for the future as the single portal for businesses dealing with government on line.

Plans for 2006-07

Progress in 2006-07

Business Support Simplification Programme

2.129 Under the Business Support Simplification Programme,⁶⁵ Government Departments and RDAs have done an initial screening of their business support, which has led to commitments to reduce the number of RDA schemes through rationalisation. A consultation on the future set of business support products will be published by summer recess. A response is planned for early 2008 and will include an action plan with next steps. Partners funding business support will produce transition plans setting out how current business support schemes will be rationalised in a way which is consistent with the new set of schemes. Further screening will follow, to enable further scheme mergers and closure of schemes that do not achieve real benefits.

Develop a forward looking strategy and funding plan for the Manufacturing Advisory Service via the MAS Development Board

Manufacturing Advisory Service

2.130 The aim of the Manufacturing Advisory Service (MAS) is to provide practical assistance to British manufacturing industry to help increase their efficiency and global competitiveness. The future strategy for the MAS was agreed in January 2007.⁶⁶ The strategy provides for a measured expansion of the service over the period 2008-11, allowing it to provide an enhanced service to more firms, particularly SMEs. The Department is now working closely with the RDAs and MAS regional centres to implement this strategy.

The Small Business Service

2.131 The Small Business Service (SBS) was launched as an executive agency in April 2000. The Secretary of State announced before Parliament in October 2006 that the SBS would become a smaller, sharply focused policy unit with close links with business and with other parts of Government. The SBS would no longer deliver services. Wherever possible, support programmes would be run by its delivery partners close to customers, regionally or locally. SBS would no longer need the status of being an executive agency. The last SBS Annual Report as an agency will be available on the Department's website.⁶⁷

2.132 In April 2007 it started operating as a policy unit within the Department's Enterprise and Business Group. In its new role, SBS will focus on the policy issues where Government action can influence the business environment; and continue to build an enterprise culture which supports our entrepreneurs – the people who make the difference in firms large and small. It will also lead time-limited projects such as its current Business Support Simplification Programme (see above). On behalf of Ministers, SBS will maintain policy responsibility for the Government's investments in a range of business support – including Business Link, Enterprise Insight, and access to finance funds.

Women's Enterprise Task Force

2.133 In November 2006 a new Women's Enterprise Task Force was set up (WETF). The remit of the WETF is to give advice to Government in the development of policies that will encourage more women to set up and grow their own businesses. The WETF will be managed through the South East England Development Agency (SEEDA – see page 55 about RDAs).

SR04 PSA 7 – Regional economic performance**On course**

"Make sustainable improvements in the economic performance of all the English regions by 2008 and over the long term reduce the persistent gap in growth rates between the regions, demonstrating progress by 2006." Joint with HM Treasury and the Department for Communities and Local Government.

2.134 The aim of this PSA and the objective on Strengthening Regional Economies on page 55 is to increase the growth rate of all English regions and, in the longer term, to narrow the gap in the growth rates between the more successful and lagging regions. In delivering this objective the Department has worked closely with HMT, CLG (with whom the Department jointly owns the PSA), DWP, DfT, DfES, the Regional Development Agencies (RDAs), and the Government Offices. Key achievements by the Department for the year 2006-07 include:

- reviews of the Regional Economic Strategy (RES) for five regions;
- the distribution of the new round of EU structural funds for competitiveness; and
- a new Assisted Area map for the UK for the period 2007-13.

2.135 As an overarching theme the Department has continued to develop the evidence base for addressing regional performance differentials in employment, skills, investment, innovation, enterprise and competition.

Current position

2.136 Alongside the Pre-Budget Report 2006, the Government has published a report on progress against this target, in line with the commitment given in this PSA target and the PSA technical note.⁶⁸ The report sets out some encouraging early evidence suggesting limited signs of progress, although a full assessment of trends in regional economic activity and disparities cannot be fully determined until the current economic cycle is complete.

2.137 The main indicator for this target is the gross value added (GVA) per head growth rate in each region. For the purposes of monitoring the PSA, the regions are divided into three successful regions (East, London and South East) and six lagging ones (East Midlands, North East, North West, South West, West Midlands and Yorkshire & Humber). In 2002-2005, performance was mixed. The three Northern Regions, the East Midlands, South West and London improved on baseline performance, with the West Midlands maintaining baseline performance whereas the South East and East regions did not improve on their individual baseline trends. Between 2002 and 2005, GVA per head growth in the Northern, Midlands and South West collectively was 2.1% per year,⁶⁹ the same rate of growth as the Greater South East (GSE). This is in contrast to 1990-2002 (PSA baseline) when GVA per head trend growth in the Greater South East was 2.4% per year, and 1.8% per year in the North, Midlands and South West.⁷⁰ Over 2002-2005, the North saw the fastest employment rate growth, but the lowest productivity growth. Employment growth in the North, combined with strong

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performance on basic and level 2 skills in the poorer performing regions has underpinned the narrowing in GVA per head growth rates.

2.138 However, with only three years' data it is too early to say if these results reflect changes in underlying trends, particularly as there is not yet an official regional real GVA data series, and there is evidence of differential timing in regional economic cycles, with greater volatility in the GSE cycle. A significant challenge remains on both parts of the target, with a particular challenge to improve productivity in the poorer performing regions.

Factors affecting performance

2.139 The achievement of this PSA is subject to the performance of the UK economy as a whole, and hence to the often global or international factors which affect it. It is therefore intrinsically difficult to assess the degree to which the overall position reflects the measures which are being put in place. The reasons for the gaps in regional performance are long-term and structural, and action taken now to improve, for example, the environment for innovation and enterprise will not necessarily have an impact on regional performance until some time in the future.

2.140 Progress on this PSA is underpinned by two broad strands. First, the Government has put in place a macroeconomic framework designed to maintain long-term economic stability and help businesses and individuals plan for the future, and secondly, the Government has introduced microeconomic reforms to address the five drivers of productivity (skills, investment, innovation, enterprise and competition) and to encourage people into work by making work pay.

2.141 Progress on narrowing the gap has been partly due to strong employment growth in the North. By May 2006, the average employment rate for the bottom six regions was broadly equal to the average employment rate for the top three regions. This compares with a gap of over 2 percentage points in 2001. Similarly, the skills gap between the top three regions and the bottom six regions – as measured by the percentage of the economically active population trained to National Vocational Qualification Level 2 or above – has also narrowed from 3.8% in 1998 to 1.1% in 2006.

2.142 The Government is conducting a review of sub-national economic development to feed into the 2007 Comprehensive Spending Review. It seeks to explore the opportunities for further releasing the economic potential of English regions, cities and localities, and to respond

more effectively to the ongoing challenge of tackling pockets of deprivation.

2.143 Important measures undertaken in 2006-07 to deliver the target include:

- the national roll-out of Pathways to Work, an initiative to support incapacity benefit claimants to find work;
- supporting the three-year Regional Funding Allocations exercise which has achieved alignment between the regional strategies in the inter-related areas of economic development, housing and transport;
- supporting five Regional Development Agencies (RDAs) in reviewing their regions' economic strategies, which now have a sharper focus with targeted actions focused on identified market failures within the regions (the National Audit Office completed its programme of assessment of the performance and capacity of the eight RDAs outside London – all were assessed as performing strongly or performing well);
- taking further steps to strengthen devolution, performance management and accountability in the RDAs, including Independent Performance Assessments (IPA) carried out by the National Audit Office for eight RDAs;
- continued input from the RDAs on central Government policy decisions, including working with local and national bodies to reduce the number of business support services from around 3,000 now to no more than 100 by 2010 (see also page 52 above); and
- taking next steps on implementing the Northern Way Growth Strategy, including new science and research centres, skills pilots and transport interventions.

Business plan objective: strengthening regional economies

Plans for 2006-07

Work with the Regional Development Agencies (RDAs), Government Offices (GOs) and other Government Departments to make sustainable improvements in the economic performance of all the English Regions by 2008 and narrow the gap in growth rates between them

Progress in 2006-07

2.144 Please also refer to page 54 above on regional economic strategy reviews.

RDAs

2.145 Through RDA funded projects and programmes, the RDAs boosted the performance of the Regions in 2005-06 by:

- enabling the creation or safeguarding of over 111,000 jobs;
- helping over 52,000 people to get a job;
- creating or attracting over 18,000 new businesses to the regions;
- helping over 166,000 businesses to improve their performance (with over 7,000 of these helped to engage in new collaborations with the UK knowledge base);
- leveraging over £2.1 billion in regeneration infrastructure investment;
- reclaiming and/or redeveloping over 1,070 hectares of brownfield land; and
- helping over 373,000 people in their skills development.

2.146 Figures for 2006-07 will be available this summer.

2.147 Three examples of successful RDA-funded projects are:

- **The Daresbury Science and Innovation Campus.** The North West Development Agency has invested £50 million in the Campus in order to provide the infrastructure (high quality office, workshop and laboratory space) to support the development and commercialisation of world-class science. Lord Sainsbury, then Minister for Science, officially opened the Campus in September 2006 and it is now home to a number of technology-based companies.
- **Wave Hub.** South West of England Regional Development Agency (SWRDA) has invested £500,000 in Wave Hub, an innovative project to demonstrate the operational effectiveness of wave-energy generating technology. Wave Hub expected to create up to 700 jobs and contribute £27 million to the regional economy by 2020. It will also generate enough clean, renewable energy to power 14,000 homes.
- **Hethel Engineering Centre.** The East of England Development Agency has funded an engineering centre of excellence in partnership with Norfolk County Council, the Lotus Group, South Norfolk Council and Business Link. The centre supports motorsports, electronics and high-tech engineering.

2.148 See also section 3.3 which provides information about the relationship between the Department and its delivery partners such as the RDAs.

Plans for 2006-07

Progress in 2006-07

Government Offices

2.149 The Government Offices represent eleven Departments in the English Regions and are managed by the Regional Co-ordination Unit (RCU) in the Department of Communities and Local Government (CLG).

2.150 This structure means that the Government Offices are in a unique position to take a cross-departmental approach to delivery of policy in the regions. They are well placed to develop strong links with local, and regional stakeholders which helps to ensure that Departmental policy is delivered on the ground. These links also enable local and regional opinion to be fed back to the Department.

2.151 The HM Treasury/CLG Government Office Strategic Review, published in March 2006, required them to become smaller more strategic organisations with a greater responsibility to influence the development of Whitehall policy to better reflect regional issues. The Department has been working closely with the Review implementation team to ensure that the Department's priorities for the Offices are identified and delivered.

Work in partnership with the RDAs so that they are even more closely engaged in Departmental policy formulation

RDAs

2.152 The Department has continued to work in partnership with the RDAs so that they are more closely involved in Departmental policy formulation. Examples of cooperation between the Department and the RDAs have already been mentioned above in the report on PSAs 6 and 7 and the objective on Enterprise, Growth and Business Investment (see page 54 on reviews of Regional Economic Strategies and page 52 on the Business Support Simplification Programme).

2.153 Further examples are:

- regular exchanges between RDA representatives and DTI ministers and officials to discuss energy policy formulation and implementation (in particular on the role of the English regions in relation to the Energy White Paper); and
- strong RDA engagement in the Technology Strategy Programme, including substantial joint investments (particularly in aerospace projects) and joint promotion of Collaborative Research and Development competitions.

Work with HM Treasury, CLG, the RDAs, GOs and others on the review of sub national interventions on economic development and the regeneration and renewal of deprived neighbourhoods, announced in the Budget 2006

Sub-national interventions

2.154 The Department has played a lead role in the review of sub-national economic development and the regeneration and renewal of deprived neighbourhoods announced in the Budget 2006. This review is being undertaken in partnership with HM Treasury and CLG. Budget 2007 reported progress on the review and its findings⁷¹ will help inform the 2007 Comprehensive Spending Review.

Plans for 2006-07

Make the most cost effective use of EU Structural Funds by maximising take up of current Structural Fund programmes and securing agreement on the new EU regulations in line with UK objectives for reform

Progress in 2006-07**EU Structural Funds**

2.155 In 2006-07 continued maximum use was made of the 2000-06 programme funds and we saw the start of the 2007-13 European Structural Fund programme period, where the UK's allocation is €10.6 billion (in 2006 prices).

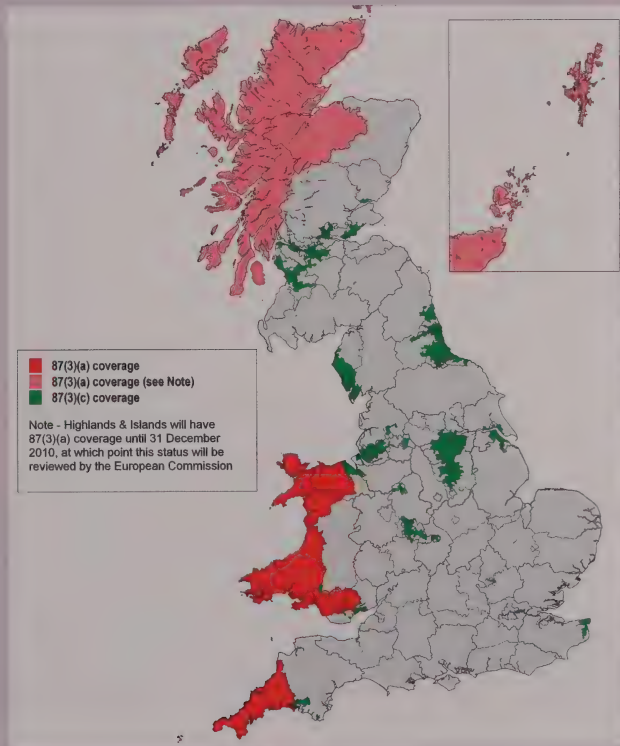
2.156 Compared to the previous period, the major changes to EU Cohesion and Regional Policy, of which the Funds are an instrument, include a more clear focus on the Lisbon Growth and Jobs Agenda, the adoption of a more strategic approach and simpler and more efficient operation (see: www.dti.gov.uk/regional/european-structural-funds/index.html).

2.157 Preparations are in hand for the RDAs to take a leading role in delivering the new regional ERDF programmes in England, working in partnership with local stakeholders

Complete the drawing up of the new Assisted Areas map in a way which maximises the impact of regional investment on future regional and national economic development and growth by end December 2006

Assisted Areas

2.158 In December 2006 the European Commission approved a new Assisted Areas map for the period 2007-13 drawn up by the Department in consultation with other Government Departments and key regional partners. The new map will ensure that public investment funding for large companies will be focussed on those areas that are most likely to need state support. The capital investment aid will help the assisted areas to rise to the challenge of globalisation and narrow the national growth rate differential.⁷²



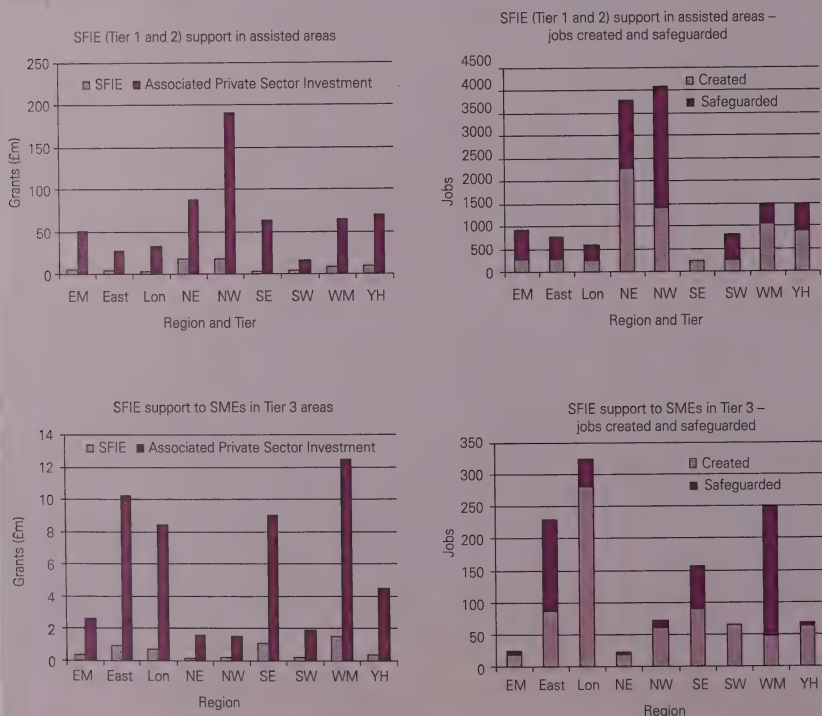
Map of Assisted Areas in Great Britain, 2007-2013

Selective Finance for Investment in England (SFIE)

2.159 Selective Finance for Investment in England (SFIE) is a national business support product. It is designed to assist the development of the most disadvantaged regions in England by supporting sustainable investment and job creation. It promotes the expansion, rationalisation, modernisation and diversification of economic activities of businesses located in the Assisted Areas, in particular by encouraging firms to set up new establishments there. SFIE support is discretionary and funds are only provided when specific capital expenditure, employment and productivity improvement milestones are reached. RDAs are responsible for the delivery of SFIE where the amount of support is less than £2 million. Support above this level is administered by the Department.

2.160 Over the period 1 April 2006 to 31 March 2007 333 offers of SFIE grant support were made. The total value of these grants is equal to £71 million, and they will support £606 million of private sector capital investment in projects that will create or safeguard 14,000 jobs in the assisted areas. In addition 87 offers of SFIE(SME) grant support were accepted by SMEs operating outside of the assisted areas. The total value of these grants was £5.6 million; they will support £52 million of capital investment by SMEs and will create or safeguard 1,214 jobs. The figures below present information on SFIE/SFIE(SME) support by each of the nine RDAs.

Figure 2.16



National Standard

"Maintaining the UK's standing as one of the best places in the world for online business."

Related Target: SR02 PSA 8 – Make the UK the best place in the world for e-business, with an extensive and competitive broadband market, judged using international comparative measures of business uptake and use of information and communication techniques (see Annex A.2).

Current position

2.161 The UK continues to make progress in the development of its broadband infrastructure and in the way businesses are using technology. Although we are likely to fall short of the PSA target to be the best in the world (the latest ranking is still 3rd), we believe that the UK is one of the leading nations for online business as measured against the benchmarked countries.⁷³

2.162 The UK still has one of the fastest growing broadband markets in Europe and continues to have the most extensive availability, with 99.8% of households able to access broadband. Take-up is 13.5 million households as of April 2007 and predicted to reach 17 million by end of June 2007.⁷⁴ Extensiveness is a combined measure of broadband availability with a market context factor, which estimates market demand for broadband. We have seen increased competition in the broadband market, with at least half a dozen companies offering services, increasingly over unbundled lines. New bundled services, offering "free" broadband, have been brought to market and higher bandwidth services are also increasingly available. We continue to review UK broadband policy and have asked the Broadband Stakeholders Group (an industry group) to report on likely developments in the market in the medium term. This will inform further policy development.

2.163 The 2007 E-readiness rankings produced by the Economist Intelligence Unit placed the UK 2nd behind Finland as the most attractive business location in Western Europe. The UK's main advantages are a low cost but qualified work force, proximity to developed markets and its long-term market potential. Figures from the ONS 2005 e-business study show that the value of purchases by UK businesses over the internet rose to £62.4 billion in 2004, up by £24.5 billion (64%) from the 2003 level of £37.9 billion. Internet purchases accounted for nearly 4.4% of the total purchases by UK businesses in 2004.

2.164 Business investment in information and communication technology (ICT) goods and

services more than doubled in the UK between 1992 and 2004, outpacing growth in total investment. Investment in ICT grew by 165% between 1992 and its peak in 2000, and by 117% between 1992 and 2004. Growth in total investment rose steadily by 101% over the same period.

2.165 OFCOM's September 2006 "Communication Market report" shows that there is a very high take up of communication services within SME businesses. The report found that 90% of SMEs have ownership of a PC, MAC or Laptop and 84% of SMEs have an Internet connection. Three quarters (73%) claimed to use broadband as their main connection.

2.166 There is clear evidence that effective use of information and communication technology (ICT) enables productivity growth, where it is combined with complementary investments in human capital, process and organisational change. The business challenge, for the public sector as well as the private sector, is to ensure that investment in ICT is not done in isolation but as part of business change to deliver specific business objectives.

2.167 The Department continues to work closely with Regional Development Agencies to ensure that their regional economic strategies reflect the importance of ICT to economic development and productivity. A number of regions have developed ICT strategies to complement their regional economic strategies. On a similar basis we meet with the Devolved Administrations to share knowledge and policy issues.

Business plan objective: effective channels with business

2.168 The Effective Channels with Business objective is a key conduit for dialogue with business and ensures that Government understands the consequences of its actions on productivity and performance particularly in relation to regulation, innovation, public procurement and skills. Understanding is built up through the combination of high quality analysis, focused relationship management of targeted businesses and intermediaries, and formation of industry/government growth teams and specific joint industry/government discussion of major regulations.

2.169 Such engagement has continued to be strengthened and deepened via a strong two-way communication processes with some 230 key companies and 90 intermediaries who influence the corporate strategy and performance of the rest of their sector thereby enabling the Department to further enhance its knowledge and ability to influence policymaking and regulatory development at an early stage, and thus to create the best conditions for UK business success.

Plans for 2006-07

Drive development and delivery of the Government's Manufacturing Strategy Action Plan, through the multi stakeholder Manufacturing Forum, including ensuring delivery of the Forum's priority actions including on skills, public procurement and image by end December 2006

Co-ordinate all DTI activities associated with the 2012 London Olympics, which includes joint responsibility with the Department for Culture, Media and Sport (DCMS) for maximising the wider economic benefits of the Games across the UK and to develop a detailed initial operating plan by September 2006

Progress in 2006-07

Manufacturing Forum

2.170 The Manufacturing Forum, which brings together Government and organisations who are working to support the manufacturing sector in the UK, was established in 2004. The Forum has:

- driven forward the proposal, development and launch of the National Skills Academy for Manufacturing (NSAM), as part of DfES's programme to establish a framework of skills academies;⁷⁵
- researched the scope for encouraging increased skills and training, improved environmental standards, and local and regional sourcing of products through public procurement contracts;⁷⁶
- explored developing an independent Manufacturing Media Centre as a resource for journalists, to address the issue of the sector's negative image in the media and to improve public understanding; and
- established a "Manufacturing Day" as part of Enterprise Week campaign (see also page 51 on Enterprise Week).

2012 Olympics

2.171 A delivery plan⁷⁷ has been produced to create a legacy of more innovative, globally competitive companies with the Department concentrating on getting buy-in for a cross Government business strategy. Highlights of this strategy will be: supporting individual businesses and sectors to improve competitiveness, focusing on getting innovation into the 2012 games and ensuring a strong international focus to the work.

Plans for 2006-07	Progress in 2006-07
<p>Drive European Commission strategic priorities for EU Industrial Policy, contributing to the Lisbon Economic Reform Agenda, and support UK Ministerial engagement in the following High Level Groups:</p> <ul style="list-style-type: none"> • Competitiveness, Energy and Environment • Pharmaceuticals • i2010 ICT Strategy 	<p>EU</p> <p>2.172 The EU Industrial Policy Agenda⁷⁸ was launched in 2005 and will run until 2009. The UK has played a central role in focusing this agenda on the drivers of productivity and growth and using it to integrate economic policy interests and business expertise into wider EU policy making. Alistair Darling and Sir Nicholas Stern also supported the European Commission in developing the role of its High Level Group on Energy, Environment and Competitiveness, which is now supporting EU efforts to secure international action to reduce greenhouse gas emissions.</p> <p>2.173 The Department has also maintained its focus on ICT, given its horizontal role as an enabler of productivity across service and manufacturing sectors, to ensure that the EU regulatory environment reflects, rather than inhibits, the rapidly converging technologies and uses.</p>
<p>Continue to partner with the Ministry of Defence in delivering the objectives set out in the Defence Industrial Policy</p>	<p>Defence</p> <p>2.174 The Department is actively involved in the implementation of the Defence Industrial Strategy and the Defence Technology Strategy. The Department's strong links with industry and the Ministry of Defence help to ensure that procurement decisions are made to maximise economic benefit for the UK – technological skills, intellectual property and investment – without prejudice to the requirement to equip the Armed Forces efficiently and properly.</p>
<p>Work within the Information Age Partnership to ensure that the benefits of exploiting ICT are properly understood and delivered by business and Government</p>	<p>Information Age Partnership</p> <p>2.175 In the last year, the Information Age Partnership (IAP), a key forum for debate between CEOs in the UK's ITEC companies and Government officials, has played an important role in getting industry views across in a number of key policy areas. Working with Government Departments from across Whitehall, the IAP has:</p> <ul style="list-style-type: none"> • highlighted importance of ICT investment and use as a key enabler to productivity; • provided an important contribution to the review of the Digital Strategy (see below); and • provided input to the 2006 Riga Conference Ministerial Declaration on e-inclusion (ie. closing the gap between those with and without ICT access).
<p>With DCMS, lead the overall Digital Television Switchover programme to enable the broadcasting industry to deliver switchover by the planned date of 2012</p>	<p>Digital Television switchover</p> <p>2.176 The Department continues to work with industry and others to promote the development of high quality consumer equipment and services. Highlights of 2006 were:</p> <ul style="list-style-type: none"> • launch of the Registered Digital Installer Scheme⁷⁹ to raise the professionalism of aerial installers and provide consumers with access to competent aerial installation services and advice in the run up to switchover; and • launch of the Usability Action Plan⁸⁰ to improve the ease of use and energy efficiency of digital TV equipment.

Plans for 2006-07

Progress in 2006-07



'Digital AI' Digital TV switchover robot

Evolve the UK Digital Strategy to focus attention of Government on ensuring that digital inclusion, where relevant, is reflected in policy development and service delivery throughout 2006

Digital Strategy

2.177 The Department completed its review of the UK Government's Digital Strategy and reported its conclusions to Ministers. The conclusions of the review will form the basis of digital inclusion policy considerations over the coming period.

2.178 The review concluded that Government policy should seek ways to exploit digital technologies in priority areas like social exclusion, education, health and welfare and that the principle of digital inclusion should also be embedded in policy development. In line with the Varney Review it highlights that efficiencies can be gained through digital service delivery, but that government should act to ensure that those who need these services are able to access them and that safeguards against involuntary exclusion are adopted.

Improve the quality of regulation by developing a better understanding of industry commercial and government policy drivers through Industry Policy and European Regulation Groups which comprise industry and government representatives and which cover a number of key sectors including construction, automotive and retail

Sector Regulatory Fora

2.179 The Department's Sector Regulatory Fora, in which industry actively participate, allow us to factor the views of business into Whitehall and EU policy and regulatory processes. A prime example is the successful outcome on REACH, the new EU regulation on chemicals, where the Department in close partnership with Defra effectively represented the concerns of UK industry and secured a £111 million cost saving for UK business.

2.180 Part of this key outcome was also to promote a better regulation of global communication markets at the Internet Governance Forum in October 2006 and ITU's November 2006 Plenipotentiary Conference.

Plans for 2006-07

Unite industry behind agreed agendas for improving performance and innovation in construction through the Strategic Forum for Construction and construction National Technology Platform. Specifically, to launch a Strategic Research Agenda for the UK Construction sector in June 2006, and by end 2007 having 50% of construction projects (by value) undertaken by integrated teams and supply chains

Progress in 2006-07**Construction**

2.181 The Department continues to work closely with the Strategic Forum for Construction,⁸¹ the construction umbrella bodies and the National Platform for the Built Environment (an industry group aiming to increase business-led research) to deliver a more efficient and effective construction industry. Highlights of 2006-07 were:

- launch of the Strategic Research Agenda for construction;⁸²
- launch of the 2012 Construction Commitments on industry best practice for the Olympics and beyond;⁸³
- transfer of Trustmark to the private sector;⁸⁴
- continuing to review the Construction Act to improve payment practices;
- launching development of a strategy for sustainable construction; and
- increasing both industry and client participation in Constructionline.⁸⁵

2.182 It seems unlikely that the Integration target will be met and the Department is working with the Strategic Forum for Construction and the Public Sector Construction Clients Forum on measures to ensure better progress is made.

Business plan objective: UK Trade & Investment

2.183 UKTI's 2007 Departmental Report sets out its activities in detail; this is available at www.uktradeinvest.gov.uk.

2.184 UK Trade & Investment (UKTI) is the government organisation that supports companies in the UK trading internationally, and overseas enterprises seeking to locate in the UK. It works to deliver maximum value for the UK economy and for business in an increasingly globalised and competitive world. UKTI brings together the work of the Department and FCO on international trade and investment. It shares its PSA target (discussed below) with its parent departments, and delivers it on their behalf through staff employed by either the FCO or the Department. Most of those working to deliver UKTI services overseas are FCO staff in diplomatic posts in those countries that are the highest priority in terms of the UK's economic interests, while staff in the UK are drawn mainly from the Department.

2.185 The last year has seen major changes for UKTI. The March 2006 Budget Announcement set out an enhanced role for UKTI, to ensure the best possible support to help business meet the challenges of globalisation, and to coordinate the marketing of the UK economy internationally. UKTI responded by launching its new strategy, "Prosperity in a Changing World" in July 2006.⁸⁶

2.186 The Strategy sets the course for UKTI for the next five years. It is about making sure that UKTI works as effectively as possible for its customers and delivers the maximum return the UK economy. There are three main themes to the strategy:

- leading and joining up marketing of the UK economy;
- working in partnership with business, other Government organisations and regional partners; and
- a focus on the areas where UKTI adds the most value and on the clients, sectors and markets which offer the best opportunities and potential economic benefit.

2.187 Since the launch, UKTI has made significant internal changes, restructuring in order to focus its resources even more on the front line and in high growth markets. As of March 2007 posts in headquarters offices have reduced by some 40% since March 2004, and some 90% of UKTI's staff are in the front line overseas, in the English regions, or in customer-facing service delivery in headquarters.

2.188 Other progress to date includes:

- The launch in March 2007 of a new compelling message to market the UK economy internationally, "the UK as a Springboard for Global Growth". This is a message for the UK economy as a whole, for all those engaged in promoting the UK as both the best possible investment location and the trading partner of choice around the world. UKTI is promoting this message in the UK and overseas to both business and public sector partners.
- The launch on October 2006 of a strategy for promoting the City of London and the UK's financial services sector. This was developed in partnership with leading financial sector bodies from London, the devolved administrations and the English regions.
- A refocusing of resources in overseas markets, with increases in staff in 16 high-growth emerging markets. This is helping to deepen the UK's trade and economic relationships with high-growth markets such as India, China and Brazil, and ensure UK business is best placed to make the most of the business opportunities they offer.

- Agreement through a new, Ministerially-led committee, on more effective arrangements across Departments for maximising the commercial value for companies of Ministers' visits overseas.

2.189 In taking forward its new strategy, UKTI is building on firm foundations. Independent research, published in April 2006, showed that £65 million spent on four key UKTI trade development schemes generated £1.1 billion – in other words £17 of additional net benefit for each £1 of UKTI spend – by helping over 6,000 businesses, from the manufacturing and services sectors, to upgrade their international marketing strategies. The UK remains Europe's number one inward investment destination; in 2005-06, 1,220 inward investment projects created 34,077 new jobs, safeguarding a further 55,789.

2.190 UK Trade & Investment is committed to delivering its existing SR04 PSA targets. It will also develop, with HM Treasury, new top-level targets covering the following four broad areas:

- high value Foreign Direct Investment;
- R&D and innovative activity of UK Trade & Investment's customer base;
- UK businesses' performance; and
- the UK's reputation as a place to do business in and with.

These will feed into development of new public service agreements during the Comprehensive Spending Review in 2007.

SR04 PSA 8 – UK Trade & Investment

On course

"By 2008 deliver a measurable improvement in the business performance of UK Trade & Investment's international trade customers, with an emphasis on new to export firms; and maintain the UK as the prime location in the EU for foreign direct investment." Joint with the Foreign and Commonwealth Office.

Current position

Indicator (i) *At least a 30 percentage point increase by 2007-08 in the proportion of UK Trade & Investment trade development resources focused on new-to-export firms: **ON COURSE***

2.191 According to internal management accounting data, as of July 2006 the shift in resources to new-to-export firms was on track to be delivered by the end of the SR04 period. A new five-year Strategy was published in July, to deliver the key elements of the March 2006 Budget announcement of an enhanced role for UK Trade & Investment. The Strategy charts a new direction for UK Trade & Investment that will require significant organisational change and re-distribution of resources to deliver new priorities. It also confirms that new-to-export firms will continue to be an important client group for UK Trade & Investment.

Indicator (ii) At least 40% of new-to-export firms assisted by UK Trade & Investment improve their business performance within 2 years: **AHEAD**⁸⁷

Annual result 2003	2004	2005	Q3 2006-07 (cumulative)
35%	30%	31%	52%

Indicator (iii) At least 50% of established exporters assisted by UK Trade & Investment improve their business performance within 2 years: **AHEAD**⁸⁷

Annual result 2003	2004	2005	Q3 2006-07 (cumulative)
43%	43%	54%	51%

Indicator (iv) Improve the UK's ranking within Europe in terms of the GDP-adjusted stock of EU foreign direct investment based on the UNCTAD World Investment Report: **ON COURSE**

2.192 Based on the UNCTAD World Investment Report 2006 the UK's ranking has increased from a revised final ranking of 15th in 2004 to a provisional ranking of 10th in 2005 (this ranking may be subject to further revision).

Indicator (v) 374 (in 2005-06), 440 (in 2006-07) and 524 (in 2007-08) successful inward investment projects secured by UK Trade & Investment in each year of the Spending Review of which 75% are knowledge driven: **ON COURSE**

2.193 438 successes (figure revised since publication of Inward Investment Annual Review in July) were achieved in 2005-06; of these, 73% were knowledge-driven (this percentage remains to be verified).

2.194 At end-March 2007, 486 successes have been reported as achieved in 2006-07 of which 77% were knowledge driven. Cumulative achievement against this PSA indicator to date (April 2005-March 2007) is 924 successes recorded/reported, of which 75% were knowledge driven. These figures and percentages are provisional and remain to be verified.

Figure 2.17 Expenditure on supporting successful business (£ million)

	2003-04 Outturn	2004-05 Outturn	2005-06 Outturn	2006-07 Outturn	2007-08 Plans
Enterprise Growth and Business Investment	749.5	327.0	87.5	-39.8	43.0
<i>of which:</i>					
Miscellaneous nonring fenced resource (including noncash)	207.0	66.4	88.6	49.9	15.9
Nonring fenced capital (Longbridge)		0.8	2.7		
Design Council	7.2	10.4	7.0	6.4	6.3
Small Business Service:	181.5	186.1	18.7	16.0	15.0
Resource (including noncash):	176.4	181.3	12.7	15.2	11.0
Capital	5.1	4.9	6.1	0.7	4.0
Enterprise Fund, Including Enterprise Capital Fund	16.1	49.3	21.7	13.7	61.0
Small Firms Loan Guarantee Scheme	102.2	145.2	94.9	28.8	99.7
Capital Modernisation Fund projects	15.0	13.6			
Recoveries related to British Energy	-1.9	-0.5			
Exchange Risk Guarantee Scheme	0.3				
Aerospace Launch Investment	222.2	-144.4	-146.2	-154.7	-155.0
<i>of which:</i>					
Capital expenditure	323.5	0	0	0	3.0
Expert Advice and other programme	1.3	0.5	1.2	0.5	0.5
Noncash	-5.6	-8.3	-0.9	-1.0	-0.1
Resource Receipts	-80.2	-106.8			
Capital Receipts	-16.7	-29.7	-146.5	-154.1	-158.3
Strengthening Regional Economies	180.0	347.3	645.3	667.3	617.9
<i>Of which</i>					
RSA/Selective Finance for Investment in England	25.9	36.8	49.0	27.7	32.0
EG/Enterprise Grants	4.8	0.2	0.4	0.4	0.7
RDA Single Pot	141.2	296.0	589.7	635.6	584.2
University Innovation Centres	4.5	14.2	6.6	3.6	1.0
European programmes	3.6		-0.3		
Effective Channels with Business	17.5	16.5	12.5	7.6	8.6
<i>of which:</i>					
Building effective relations with business	11.1	13.3	8.8	4.8	4.7
Enabling infrastructure	6.4	3.2	2	1.4	2.6
Capturing and analysing data on business performance	0	0	1.7	1.4	1.3
Trade and Investment	35.1	34.2	33.2	30.9	33.5

Notes:

- The spend given for UK Trade & Investment is admin spend only (contrary to last year's report when programme spend was given). For UKTI programme spend see UKTI's annual report. The difference between programme and admin spend is explained in chapter 4.
- The total spend given here for each business plan objective corresponds with the total of the Resource DEL, Resource AME and Capital DEL spend given in tables 2 and 3 in section 6.3.
- The figures shown as 2007-08 plans reflect the original DTI budgets. These will be allocated to its successor departments created in June 2007 (BERR and DIUS, see section 1.1) in due course.



Section 2.6

Ensuring fair markets

Introduction

2.195 Economic success provides the wealth on which we all depend. When they work, markets are the key to that success; they provide new and cheaper products and services, full employment and rising living standards. Markets work best within clear rules. Government has a role in helping markets work, and in ensuring they are fair.

2.196 Globalisation brings challenges to existing approaches developed on a national basis. Its impact can be felt more keenly by more vulnerable members of society. Globalisation also brings opportunities because those who get ahead of the game and embrace change benefit the most. There will be significant benefits for business, employees and consumers if we can put in place world-class frameworks for domestic and international business activity which help stimulate new ideas and encourage enterprise and growth within a fair society.

2.197 That is what the Fair Markets Group within the Department aims to do in setting appropriate and proportionate legal frameworks for competition, corporate governance, consumers, labour markets, and in promoting free and fair trade. This work includes acting to liberalise international markets and support sustainable development; shaping rules to maintain competition and to promote openness and competitiveness in the UK and EU business environments; intervening to create fair and flexible labour markets and to ensure that confident and informed consumers drive markets; and acting to protect the vulnerable.

Key achievements 2006-07

- **Companies Act – simplification and reform of company law, saving businesses an estimated £250 million a year (see page 84)**
- **Consumer Credit Act 2006 being implemented, providing millions of borrowers with new protections from dishonest lenders (see page 71)**
- **Adoption of EU Directive on Services in the Internal Market – implementation will open up the EU's internal market for services and boost our economy by around £5 billion a year (see page 74)**
- **Better Regulation Simplification Plan published showing planned delivery of savings of £700 million in reduction of red tape as part of the Department's commitment to reduce annual burdens on business by 25% (see section 3.6)**
- **New National Minimum Wage penalties policy (see page 82)**
- **Extended maternity pay and extension of right to request flexible working to carers (see page 80)**
- **Legislation against age discrimination came into force in October 2006 (see page 80)**
- **A record performance from the Export Licensing Organisation, with 80% of licences issued in 20 working days (see page 76)**

2.198 Crucially, it also includes ensuring that when we intervene in markets, we have weighed the evidence and assessed the risks; that regulation is proportionate, as simple as possible to follow and that it imposes no unnecessary burdens. The Department works together with business, trade unions, other interest groups and regulatory bodies to ensure that regulatory frameworks foster the conditions for business success.

2.199 Global security fosters international trade which is good for business. The Export Control Organisation contributes to international security by controlling the proliferation of arms and other strategic goods. The Department aims to implement controls in a way that minimises the burden on legitimate business.

The Department's work on ensuring fair markets can be divided into three broad subject areas: competitive markets (this area includes PSA 3 and PSA 5 as well as the Department's business plan objective on competitive markets); maximising potential in the workplace (covered by both a PSA and a BPO of the same name); and the Department's BPO on corporate and insolvency matters.

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SR04 PSA 3 – Competition and consumers

On course

"Promote fair competitive markets by ensuring that the UK framework for competition and for consumer empowerment and support is at the level of the best by 2008, measuring the effectiveness of the regime through international comparisons, supported by a broader evidence base."

Current position

Competition

2.200 The latest Peer Review of Competition Policy was carried out by KPMG in 2006-07. As in the 2004 Peer Review, it found that the UK regime was ranked third behind the US and Germany, although it was closing the gap on those countries.

2.201 Other evidence from the most recent Global Competition Review, published in June 2007, found that the UK Competition Bodies are among the best in the world with the Competition Commission sharing the "Elite" category with the US Federal Trade Commission, the European Commission's DG Competition and the Office of Fair Trading.

2.202 In the 2006 Office of Fair Trading (OFT) business and consumer survey, businesses awarded the UK a score of 7.4 out of 10 for the extent to which its markets are free from illegal practices and anti-competitive behaviour, the same score as for the previous two years.

Consumers

2.203 The 2006 OFT business and consumer survey also found that consumers gave a score of 6.3 (out of 10) for the extent to which UK markets offer a service that is fair and reasonable, the same score as the previous two years.

2.204 In addition, the June 2006 OFT survey of consumer awareness shows that consumers feel better informed of their rights than in 2005: 63% in 2006 compared to 59% in 2005 say they feel fairly or very well informed about their rights. 78% of consumers say they feel well protected and confident in using their rights, which is very similar to results for the last three years.

2.205 The national rollout of Consumer Direct was completed ahead of schedule and it was transferred to the OFT in April 2006. The latest customer satisfaction survey (January 2006) demonstrated that Consumer Direct is helping people to gain redress, with 56% of calls leading to resolution or partial resolution of the problem and 82% of consumers saying they are very or fairly satisfied with the service.

Factors affecting performance

Competition

2.206 Despite performing well in international comparisons, the Department recognises the need to continue to monitor the operation of the competition regime and consider possible enhancements to its speed, efficiency, and effectiveness, including addressing any barriers to redress for those affected by anti-competitive behaviour, in line with the aim of creating a regime that is amongst the best in the world.

2.207 The Department has overall responsibility for competition issues although responsibility for making substantive decisions and enforcing competition law falls to the UK's independent competition authorities, primarily the Office of Fair Trading (OFT)⁸⁸ and the Competition Commission.⁸⁹ The Department has transferred the remaining statutory undertakings given under the Fair Trading Act 1973 to the competition authorities.

2.208 The Department is responsible for coordinating Government responses to OFT's market studies and has responded to recommendations regarding opium derivatives⁹⁰ and airports.⁹¹ The Department is currently coordinating the responses to market studies on commercial use of public information and the pharmaceutical price regulation scheme.

Consumers

2.209 A DTI-led OECD-level research programme is examining specific aspects of consumer regimes in participating countries under the headings of Legislative Framework, Enforcement and Consumer Empowerment, with the aim of identifying the common features of effective regimes under each heading. Our understanding of what makes an effective consumer regime will improve as this research programme progresses. The first phase considered an aspect affecting consumer empowerment, namely how best to run consumer campaigns to prevent consumers falling victim to scams. Guidance has now been published.⁹² The second project, to assess what constitutes an effective penalty regime for breaches of consumer protection legislation, has been completed and is now being considered by the OECD's Committee on Consumer Policy.

2.210 A number of Government initiatives relevant to consumer empowerment and support are also underway, and the Department intends

to consider possible indicators for assessing the level of consumer empowerment, which can be used to benchmark progress in this area.

- Transposition of the **Unfair Commercial Practices (UCP) Directive** will make it easier for consumers to understand the law by simplifying UK consumer law. The UCP Directive will introduce a general prohibition on traders using unfair practices, and will harmonise unfair trading laws across the EU. The Directive overlaps with 29 existing laws and, in December 2006, the Department announced⁹³ that it would repeal provisions in 22 of these. The Department will be consulting on draft regulations (the Consumer Protection from Unfair Trading Regulations) to implement the Directive, and draft guidance in May 2007. These regulations will come into force in April 2008.
- The **DTI-led Retail Enforcement Pilot (REP)**⁹⁴ has made significant progress in delivering the recommendations arising from the Hampton Report⁹⁵ and has developed a new coordinated, risk-based approach for joint delivery of local authority regulatory services for retail businesses. Responsibility for the REP transferred to the Better Regulation Executive in the Cabinet Office with effect from January 2007.
- The **Consumer Credit Act** received Royal Assent in April 2006. The new Act amends and augments the Consumer Credit Act 1974 in order to improve consumer rights and redress; improve the regulation of consumer credit businesses and provide for better OFT oversight; and improve the consistency of the regulation of consumer credit agreements. The Consumer Credit Act is now being implemented. April 2007 has seen the introduction of two important provisions, which will make it easier for consumers to obtain redress if they have been treated badly or unfairly by lenders – a new Alternative Disputes Resolution Scheme, which will provide all consumers with access to a free and independent means of resolving disputes with lenders and a new Unfair Relationships Test, which will give greater scope for courts to consider unfair agreements. Work will also continue on developing a new licensing regime, a new Consumer Credit Appeals Tribunal and regulations designed to improve the level of information consumers can expect

to receive on their credit agreements, which we plan to bring into force in April 2008.

- The DTI, the Department for Work and Pensions and the Department of Constitutional Affairs published the “**Tackling Over-indebtedness Annual Report 2006**”⁹⁶ in the summer, which highlights work across Government to tackle over-indebtedness, including the Department’s work on the face-to-face debt advice programme, which is now being implemented.
- The **Face-to-Face Debt Advice Project** is well on the way to helping tens of thousands of the financially excluded and is financed from the Treasury’s Financial Inclusion Fund.

As a sign of its success, the 2006-07 budget was increased from £15 million to £16.5 million in the 2006 Pre Budget Report.

- In addition, the new **Consumers, Estate Agents & Redress Bill** was introduced in the House of Lords on 16 November and passed in to the House of Commons on 7 February 2007.⁹⁷ This Bill will give consumers a stronger advocacy body to represent them, create redress schemes in certain sectors, and improve the regulation of estate agents and doorstep selling. The Bill is continuing its passage through Parliament and, providing the Bill gets Royal Assent by summer 2007, the Department expects these measures to be implemented in 2008.

SR04 PSA 5 – Trade barriers

Slippage

“Ensure that the EU secures significant reductions in EU and world trade barriers by 2008 leading to improved opportunities for developing countries and a more competitive Europe.” Joint with the Department for International Development.

Action to address slippage

The UK’s main objectives are to encourage all players to engage in discussions across all the Doha Development Agenda (DDA) dossiers to deliver an ambitious and pro-development outcome; and to seek progress on key issues of interest to developing countries that are outside the main negotiations, such as Aid for Trade and Rules of Origin. The Department and DfID are engaging with the Commission, EU and WTO Members on a regular basis.

2.211 This PSA target is an evolution of an SR02 PSA target⁹⁸ that proved unachievable after the failure of the Fifth World Trade Organisation (WTO) Ministerial meeting in Cancun in 2003.

2.212 This target is shared with the Department for International Development, and the assessment of progress is agreed between the Department and DfID (although both Departments use slightly different terminology to express the same assessment).

2.213 Progress is assessed qualitatively. The assessment that there is slippage is based on the cumulative impact of the factors identified below.

Current position

2.214 The main lever for meeting this target is the Doha Development Agenda (DDA). Negotiations on the DDA were formally suspended in July 2006. Informal negotiations restarted in November 2006 and the Director General of the WTO announced a full-scale return to negotiations on 31 January 2007. Throughout, the

UK has been working to encourage all players to move where necessary from established positions, first to deliver relaunched negotiations, and ultimately to deliver an ambitious, pro-development outcome. During negotiations, we have built up a high degree of credibility with opposite numbers in the EU and internationally. We have continued to use this credibility to stress the global benefits of a deal and the risks of failure.

2.215 Although significant, commitment to the DDA is not the only element in the trade policy mix to achieve delivery of the target.

2.216 The Department has been seeking to influence the European Commission as it develops its trade policy agenda beyond the DDA. Commission plans include proposals for new regional trade negotiations (RTAs), beginning with India, South Korea and the Association of South East Asian Nations. The Department's objective is to ensure the WTO remains the cornerstone of a strong and rules-based multilateral trading system, with the DDA the Department's first priority. We want to see the new generation of RTAs build towards future multilateral negotiations, delivering increasing liberalisation while taking account of the needs of developing countries. We want to ensure, too, that the Economic Partnership Agreements (EPAs) being negotiated between the EU and the African, Caribbean and Pacific (ACP) countries will be an effective tool for development. In line with our UK Position Paper of March 2005⁹⁹ we will continue to work to ensure ACP concerns are addressed and that a pro-development conclusion of the EPA negotiations is reached by end 2007.

2.217 The Department has been consulting UK industry and working with the European Commission on the planned reshaped EU Market Access Strategy,¹⁰⁰ intended to address trade barriers in third countries. The Department also consulted UK interests to prepare the UK response to the Commission Green Paper on the operation of EU Trade Defence Instruments.¹⁰¹

Factors affecting performance

2.218 Delivery of this target depends on the actions of the EU (the EU has competence on all European trade issues) and others, especially WTO Members. The UK contribution depends on its credibility and influence both in the EU (the Commission and other Member States) and with key WTO members.

2.219 The WTO negotiations on the DDA have the potential to make the greatest contribution to achieving the target, although there are other non-DDA issues that contribute.

2.220 Jointly with the Department for International Development and other interested departments, the Department works through Ministers and officials to build effective relationships with opposite numbers in the EU and internationally, as well as consulting with business and civil society. In particular, its Trade Policy Consultative Forum, chaired by the Minister for Trade, Investment and Foreign

Affairs, meets regularly and brings together Non-Government Organisations (NGOs) including development charities, business associations, trade unions and consumer groups to discuss world trade issues.

2.221 The Department has continued with regular meetings of the inter-Departmental group that was set up by the Department to improve planning and operations on the Doha Development Agenda. This includes regular review of risks and contingencies and has now been extended to cover all trade negotiations, whether multilateral or bilateral/ regional. The Department has also worked across Government through the high level strategy group, established in 2005, comprising representatives from across Whitehall and UKREP, which covers DDA and non-DDA trade issues. Through both fora, the Department has worked to agree objectives, develop its influencing strategy and ensure targeted and consistent effort.

Business plan objective: extending competitive markets

2.222 The Department aims to extend competitive markets by: developing markets in both Europe and throughout the world; reducing the regulatory burden on business; and placing empowered and protected consumers at the heart of a world-class competition regime.

Plans for 2006-07	Progress in 2006-07
Use the Competitiveness Council, the High Level Group for Competitiveness & Growth and the Internal Market Committee to improve business competitiveness in an outward-looking EU	<p>EU</p> <p>2.223 Building on the significant progress during the UK's EU Presidency in 2005, we have secured good agreements on three proposals under negotiation in the Competitiveness Council that will improve business competitiveness: a Services Directive, which is estimated will benefit the UK economy by some £5 billion per year; a Chemicals Regulation (REACH), which will reduce costs on UK business by over £100 million; and a new Framework Programme for Research and Development, which will give UK companies access to an EU research budget of some £35 billion from 2007-13.</p> <p>2.224 We have also made good progress on: promoting the better regulation agenda in the EU, in particular, the systematic use of competitiveness impact assessments; encouraging Member States to continue to pursue the Lisbon economic reform process to improve business competitiveness; and in advocating an approach to the Review of the Single Market, which focuses on the economic benefits to citizens and businesses.</p>
Progress delivery of the DTI's Better Regulation Change Programme, to reduce the burdens on business arising from Departmental regulations	2.225 Please refer to section 3.6 below for details of the Department's work on better regulation and the Simplification Programme aimed at reducing burdens on business.
Promote an ambitious, pro-development outcome to the Doha development round of world trade negotiations	2.226 Please refer to PSA 5 – Trade barriers (page 72) above.
Continue to maintain a high quality, effective UK framework for competition by sponsorship/funding of independent competition authorities and enabling Ministers and other Government Departments to fulfil their residual competition role speedily and in accordance with the law	2.227 Please refer to PSA 3 – competition and consumers (page 70) above.
Progress implementation of the new Consumer Credit Act and ensure greater access to debt advice	2.228 Please refer to PSA 3 (page 70) above

Plans for 2006-07	Progress in 2006-07
Encourage risk-based enforcement by progressing establishment of the Local Better Regulation Office (LBRO) and the extension of the Office of Fair Trading's role as suggested in the Hampton Report	2.229 Responsibility for setting up the LBRO transferred to the Cabinet Office
Streamline and improve the framework for consumer protection by transposing into UK law the Unfair Commercial Practices Directive	2.230 Please refer to PSA 3 – competition and consumers (page 70) above.

Other significant activities

State Aid

2.231 The Department has lead-responsibility in Government for advice on state aid issues and state aid policy, except in relation to agriculture and transport. The Department led the UK's input to the European Commission's state aid review work through consultation and engagement with UK contacts and other member states. The Department helped secure changes to the new rules for subsidies for R&D and innovation and small (de minimis) aids in 2006 and was also actively engaged in the lead-up to reviews of frameworks for environmental aid and state guarantees where new instruments are due to be finalised in 2007, as well as the broader debate about state aid interpretation, procedure and enforcement issues.

Illegal Money Lending

2.232 The illegal money lending teams based in Glasgow and Birmingham have so far identified over 200 illegal lenders and approximately 40 individuals have been referred for potential prosecution. So far, 25 cases have resulted in convictions or are in the prosecution pipeline. The work of the teams has benefited nearly 2,000 victims and relieved them of more than £3 million in payments that would otherwise have been demanded by the lender. In December 2006, the Department received an additional £1.2 million from HM Treasury to continue and expand the pilot from its current bases to neighbouring regions. On 25 January 2007, the Treasury announced that, as part of its Financial Inclusion Agenda, it would provide further additional funding to roll out the project nationally. See also page 72 above for details on other debt-related work.

Christmas Hampers

2.233 Following the collapse of Farepak, the Government has been working with the hamper companies to put in place new safeguards. Customers' money will now be held in trust accounts controlled by independent trustees, and the new arrangements will be monitored by a new trade association.

Export Control Organisation

2.234 Through its Export Control Organisation, the Department supports Government efforts to prevent proliferation of arms and other strategic goods, whilst minimising the negative impacts on UK business, through the operation of an export licence system in conjunction with other Government Departments. The UK's strategic export controls are based on national and international commitments

concerning transfers of conventional weapons, missiles, chemical and biological weapons and nuclear-related goods and technology. The work on this area was moved from the Department's Energy Group to Fair Markets Group as of the start of the financial year 2007-08.

Figure 2.18 Standard individual export licence applications

	2006 result	target
processed within 20 days	82%	70%
processed within 60 days	99%	95%

2.235 The number of licences produced per officer per year has risen from 68 in 2003 and 90 in 2005 to 97 in 2006; average costs per standard individual licence have decreased from £525 in 2004 and £450 in 2005 to £421 in 2006. JEWEL (the licensing performance project) has created a single licensing community through the establishment of joint management structures, joint induction and new business processes. More joined-up IT for export licence application processing is being developed through the SPIRE project which is on schedule for roll-out in September 2007.

Maximising potential in the workplace – introduction

2.236 The Department's challenge is to maximise potential in the workplace while maintaining an adaptable labour market and delivering a reduction in legal complexity for business both here and in Europe, raising the level of and demand for skills and promoting diversity.

2.237 Innovation needs change in the workplace as well as in products, services and processes. Skills levels, organisational and managerial ability are important determinants of productivity and business performance. The successful introduction of new technologies depends on the introduction of new work practices. Business transformation will not work unless the workforce are involved and given the chance to influence and develop new and better skills.

2.238 In the future, the UK will have to compete more and more on the basis of unique and innovative products and services. This will require inspirational leadership, stronger management skills, a highly trained and motivated workforce, a flexible labour market that promotes diversity and fair treatment and workplaces that recognise environmental issues and the need for greater resource productivity.

2.239 The following pages report on performance against the Department's PSA and business plan objective on maximising potential in the workplace.

SR04 PSA 10

Assessment of progress: not yet assessed

Maximising potential in the workplace

"By 2008, promote ethnic diversity, cooperative employment relations and greater choice and commitment in the workplace, while maintaining a flexible labour market."

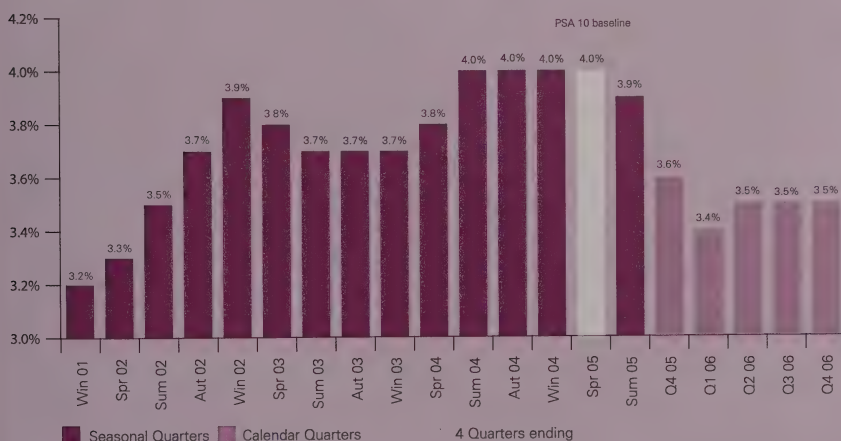
Current position of PSA 10

2.240 This PSA has five indicators. At present performance data is only available for the indicator on the self-employment rate of under-represented ethnic minorities, see below. The technical note setting out the indicators and measures for this target has been revised, and is available on the Department's website.¹⁰²

2.241 The first indicator for this target is the self-employment rate of under-represented ethnic minorities. Under-represented ethnic minority groups in self-employment are all ethnic minorities except Indian, Pakistani and Chinese (we use the same classification of ethnic minority groups as used in the Census). Against the baseline of a 4 percentage-point gap between the rate for under-represented groups and the rate for all other groups (summer 2004 – spring 2005), the gap has fallen to 3.5 percentage points by Quarter 4 2006 (see graph). It is too early to be sure if this is a long-term trend.

2.242 The self-employment rate of under-represented groups has improved from 5.6% (average summer 2004 – spring 2005) to 6.1% (average Q4 2005 – Q4 2006).

Figure 2.19 Percentage point gap between self-employment rates for under-represented groups and all other groups, England



2.243 Baselines have now been set for indicators measuring progress on the other sub-targets relating to incidences of racial discrimination at work, and information and consultation:

- The baseline for the indicator to measure the reduction in the incidence of racial discrimination at work reported by ethnic minority employees has been set at 4.0% by data gathered in the new Fair Treatment at Work Survey 2005. Data on progress against this indicator will be available in 2008 when the second survey is conducted.
- The baseline to measure the number of employees that have access to information and consultation procedures has been updated using the Workforce Employee Relations Survey (WERS) 2004 data, and set at 43%. Data on interim progress against this indicator will be available in autumn 2007 from the Work Life Balance Survey.
- The baseline for the indicator to measure the number of economically active people who are well informed about their rights at work has been updated using the results from the DTI Awareness Knowledge and Exercise of Employment Rights Survey 2005, and set at 65%. We expect data on progress against this indicator will be available by autumn 2009.

2.244 The baseline for the indicator to measure overall level of UK labour market flexibility will be set by an Index of Labour Market Adaptability (ILMA). A paper outlining the methodology behind the Index and presenting results will be published in the second half of 2007. The Department works to ensure that activities and new legislation in this area are in line with better regulation principles and maintaining choice and flexibility in the labour market.

Factors affecting performance

2.245 The ethnic minority enterprise data (above) since the baseline period of spring 2005 indicates some overall improvement. However, it is too early to say whether this is a trend. This sub-target is a challenging one; the self-employment rates of under-represented groups will need to rise significantly more than that for the white population to decrease the gap. In addition, the age profile of the two groups is a factor, with under-represented groups having a greater proportion of young people. The Regional Development Agencies have ongoing individual programmes to encourage black and minority ethnic enterprise.

2.246 There is some evidence that many people prefer employment to self-employment, and in a buoyant economy there are more employment opportunities. In part this may explain the greater success in reducing the gap between ethnic minority and overall employment. This area is covered by the SR2002 target (shared between the Department and DWP), see annex A.2.

2.247 The majority of the activities carried out under the business plan objective discussed below will also impact on PSA 10.

Business plan objective: maximising potential in the workplace

Plans for 2006-07	Progress in 2006-07
Implement the measures outlined in the Government's employment strategy (Success at Work), focusing on protecting vulnerable workers and supporting good employers, including by targeting enforcement action on those who mistreat vulnerable workers and ensuring that employers and those in work are aware of their rights and responsibilities	<p>Employment Strategy</p> <p>2.248 The Government's employment strategy (Success at Work) sets out a programme for implementation during the current Parliament. Substantial progress has been made during 2006-07, including:</p> <ul style="list-style-type: none"> • Introduction of regulations outlawing age discrimination at work and in vocational training (see section on equality of opportunity below). • Extension of paid maternity leave to nine months and extension of right to request flexible working to carers of adults (see also section on Work and Families Act below). • Consultation on extension of annual leave entitlement to include time equivalent to Bank Holidays (implementation will take place in two stages in October 2007 and April 2009).¹⁰³ • A new National Minimum Wage targeted enforcement campaign (in the child care sector); additional resources for enforcement; a new, tougher, penalties policy; a "know your rights" leaflet aimed at migrant workers. • Piloting new approaches to help vulnerable workers. This includes employers, unions, regulators, voluntary and community organisations, local authorities and Acas. The pilots were launched in June 2007 and are taking place in Birmingham, and City and Docklands in London. The pilots are looking at joining up and improving support for vulnerable workers and are focused on the hospitality and cleaning industries – sectors which have high numbers of ethnic minority and migrant workers. • A second round of the Union Modernisation Fund (see below) • Consultation on a package of measures to tackle certain abuses in the agency sector.¹⁰⁴ • Consultation on facilities and facility time for workplace representatives.¹⁰⁵ • The Employment Law Simplification Review (see below). <p>Advice on rights at work</p> <p>2.249 The Department provides advice on rights at work to individuals through communications channels such as the Acas website and helpline, the Employment Agency standards helpline, and the Insolvency Service's Redundancy helpline. The employee pages on the www.direct.gov website were launched January 2006, with 4000 users per week and had reached 82,000 users per week by September 2006.</p>
Work with the Department for Work and Pensions to influence the EU Employment Council on employment issues in line with UK policy in Europe	<p>2.250 The Department positively influenced the direction of ongoing European discussions on labour law, such as on Working Time and the Green Paper on Labour Law in line with the UK approach to flexibility and choice in the labour market.</p>

Plans for 2006-07

Progress in 2006-07

Provide enhanced support and choice for individuals with caring responsibilities to enable them to better balance those responsibilities with work, so that their skills are not lost to the labour market and they are able to progress their careers; and enable better communication between employers and women on maternity leave

Work and Families Act

2.251 The Work and Families Act 2006 received Royal Assent on 21 June. It is the first step towards delivery of some of the measures set out in the Government response to the consultation "Work and Families: Choice and Flexibility".¹⁰⁶ The full package of measures is being delivered through a combination of legislation, guidance and good practice, in line with the Government's better regulation agenda.

2.252 Changes to maternity and flexible working rights and responsibilities, coming into force in October 2006 and April 2007 respectively, have already been mentioned above. In addition, a step-change has been achieved in the quality of guidance material available to employers and employees on these issues, including the publication of a new booklet "Pregnancy and Work – What you Need to Know". The trends are already positive with research showing, for example, that three quarters of mothers now take their full entitlement to maternity pay, up from two thirds in 2002. With regard to flexible working, 47% of mothers now work flexi-time, compared to just 17% in 2002 and almost triple the number of new fathers (31%) now work flexi-time, up from 11% in 2002.

Improve equality of opportunity in the workplace and within wider society, for example through narrowing the gap between the self-employment rate of under-represented ethnic minorities and other groups

Equality of opportunity

Please also refer to PSA 10 above (page 77).

2.253 The Employment Equality (Age) Regulations 2006 came into force on 1 October 2006, with the Department of Work and Pensions bringing the occupational pension provisions into force on 1 December 2006. The regulations prohibit unjustified direct and indirect age discrimination, and all harassment and victimisation on grounds of age in employment and vocational training. They apply to people of any age, young or old. For the first time they establish basic requirements so that people can no longer be denied jobs because of prejudice; so that harassment can be tackled promptly and effectively; and so that people have an equal chance of training and promotion, whatever their age.¹⁰⁷

2.254 The Department also continued to provide funding to support bodies working on age issues to enable them to develop projects that provide information, help and direction for individuals in understanding their new rights under the age regulations and supporting the provision of practical workplace-focused guidance.

2.255 The Department contributed to the Government Action Plan to implement Women and Work Commission recommendations for closing the gender pay gap.

2.256 Acas provides training on equality and diversity to employers and has a regional network of 100 advisers, including 21 specialist equality advisers.

Enhance the ability of trade unions to make a full and effective contribution to constructive employment relations through the Union Modernisation grant scheme

Trade Unions

2.257 35 successful Union Modernisation Fund (UMF) Round One projects commenced spring/summer 2006. Bids supported include innovative projects to improve: unions' understanding of modern business practices; two-way communications within unions; their ability to respond to the increasing diversity of the labour market; and the professional competence of union officers. Round Two was launched in November 2006 and included equality representatives as a new priority theme.¹⁰⁸

Plans for 2006-07	Progress in 2006-07
Promote the benefits of employee involvement to increase the number of employees informed and consulted by their employer	<p>Information and consultation</p> <p>2.258 The Information and Consultation (I&C) regulations, having been introduced to larger companies, were extended in April 2007 to cover companies with 100 to 149 employees and a further awareness campaign was launched. Research on the impact of the regulations has been commissioned.</p>
Work with stakeholders to review employment law with the goal of reducing compliance costs for business without diluting existing rights and protections; several areas for review have already been identified including dispute resolution regulations, statutory redundancy, employment particulars and the right to time off	<p>Simplification of employment law</p> <p>2.259 The Department's Simplification Plan (published in December 2006, see section 3.6) included significant proposals on simplifying UK employment law. £430 million of possible annual administrative savings have been identified. Highlights include a root-and-branch review of the scope for simplification on dispute resolution. Most of these measures are work in progress, which in general the Department hopes to conclude in 2007.</p> <p>2.260 The Department has continued to build the evidence base for good policy making in employment relations, and ensure that proposals for new employment laws meet better regulation principles. The Employment Relations research programme aims to provide evidence to support policy development.¹⁰⁹</p>

Acas

2.261 Acas is an independent statutory body mainly funded by the Department, but which also generates some of its own revenue from training, consultancy and publications. Its aim is to improve organisations and working life through better employment relations. Its services include providing information, advice and training on a wide range of employment issues as well as individual and collective dispute resolution.

2.262 During 2006-07 Acas has:

- Dealt with around 900,000 calls to the Acas National Helpline, with surveys indicating that the information provided enabled 80% of callers to decide what to do next. An estimated £13 million gross has been saved to the taxpayer as a consequence of callers having a clearer picture of their legal rights and responsibilities.
- Received two and a half million visits to Acas' website.¹¹⁰
- Conciliated in almost 1,000 collective disputes, including involvement in all large-scale disputes, as well as delivering 200 workplace projects to improve employment relations. Significant savings are made to the economy by Acas' successful intervention in disputes where industrial action is threatened.
- Conciliated in around 160,000 actual and potential tribunal claims, including tens of thousands of potential local authority equal pay claims, saving over 70% of potential Tribunal Hearing days and around £25 million net to the taxpayer as a consequence of the resolutions it brokered in such cases

- Delivered 3,000 training sessions on employment issues, 81% of those attending feeling they could prevent problems as a result of Acas training.
- Trained more than 200 delegates to operate a mediation service in their own workplaces, thereby reducing the likelihood of grievances proceeding further.

2.263 Further details can be found in Acas' Annual Report.¹¹¹

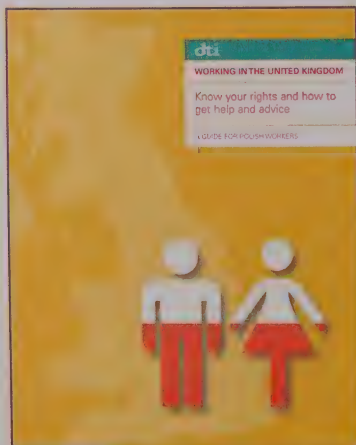
Other significant activities

Dispute resolution

2.264 On 7 December 2006, the Secretary of State announced that Michael Gibbons would undertake an independent review of Government support for resolving disputes in the workplace and consider options for simplifying all aspects of employment dispute resolution, to make the system work better for employers and employees. The Gibbons Review and a consultation on the way forward were both published on 21 March this year, alongside the Budget.¹¹² The Gibbons Review was based on evidence from a wide range of interested parties, including the CBI, EEF and TUC. The Government is committed to piloting any new approach to dispute resolution that follows the consultation.

National Minimum Wage (NMW)

2.265 On 1 October 2006 the main adult rate for workers aged 22 and over rose to £5.35 an hour; the 18-21 year old rate rose to £4.45, and the 16-17 year old rate rose to £3.30 per hour. The Government also abolished the Older Workers Development Rate and extended the 12 months exemption to all apprentices, to comply with the age strand of the Employment Directive. The national minimum wage communication strategy for 2006-07 was based around this increase in rates. A national campaign started in September 2006 included, in particular, reaching out to ethnic minorities, women, the targeted childcare sector and young workers.



"Know Your Rights" leaflet on National Minimum Wage for Polish workers (also available for workers from other countries)

2.267 In 2005 the Government announced a strategy of targeted enforcement of the NMW in the low paying sectors. For 2006-07 the Department selected the childcare sector. On 9 January 2007 the Department announced a new penalties policy. At current rates, a typical penalty for failing to comply with an enforcement notice will be over £200 per worker. The Department has also been moving forward on its criminal prosecutions strategy.

Figure 2.20 National Minimum Wage enforcement activity April 2006 to January 2007

Telephone enquiries	42,323
Complaints (received)	1,744
Investigations completed	3,299
Arrears identified	£2.4 million

Skills Strategy

2.267 The Government has accepted the ambition for world class skills for the UK advocated by Lord Leitch in his review of skills (published in December 2006).¹¹³ The Department will continue to play a full role in taking forward the skills agenda with DfES and key partners, so that the UK has the necessary skills to be competitive in the global economy.

2.268 The Department has co-sponsored the Skills for Business Network with DfES and the Devolved Administrations. The Network comprises of 25 employer-led Sector Skills Councils (SSCs) who identify the skills priorities in their industry sectors. Each SSC is producing a Sector Skills Agreement (SSA) containing details of these skills issues and proposed solutions. Four SSCs published their SSAs in 2005-06, a further six published theirs in 2006-07, and the remaining 15 will publish by the end of 2007.

2.269 The Department has been involved in the development of National Skills Academies for Manufacturing (see also page 60), Financial Services, Construction and Food and Drink processing. A further eight are in business planning.

2.270 The Department has worked with other departments (including the Home Office, Treasury, FCO and DWP) so that the UK has in place a managed migration regime that meets the needs of the economy, whilst providing the necessary safeguards on illegal working and settlement.

Business plan objective: corporate and insolvency activity framework

2.271 The Department aims to promote and deliver an effective framework for corporate and insolvency activity, giving confidence to investors and business.

2.272 The Department, together with its agencies Companies House and The Insolvency Service, has a key part to play in ensuring that the UK's overall framework for business activity supports productivity, enterprise and the creation of long-term shareholder value. This framework needs to strike a balance between encouraging enterprise and protecting investors and others; and between minimising regulatory burdens and ensuring there are adequate systems for ensuring transparency, compliance and enforcement.

2.273 One of the major changes the Department has made is in reforming and simplifying the company law framework in the new Companies Act 2006.

Plans for 2006-07	Progress in 2006-07
Implement a reformed company and insolvency law framework which minimises complexity to business and enables enterprise	<p data-bbox="468 154 603 175">Companies Act</p> <p data-bbox="468 192 1079 314">2.274 The Companies Act received Royal Assent on 8 November 2006 and represents a major reform of company law, focusing on keeping the regulatory burden to a minimum, and making the law easier to understand and more flexible, especially for small businesses.¹¹⁴ The new legislation rests on four key objectives:</p> <ul data-bbox="468 331 1079 527" style="list-style-type: none"> • enhancing shareholder engagement and a long-term investment culture; • ensuring better regulation and a “Think Small First” approach (whereby more attention is given to the situation of small companies); • making it easier to set up and run a company; and • providing flexibility for the future. <p data-bbox="468 545 1057 694">2.275 There will be a phased approach to implementation with all provisions of the Act coming into force by October 2008. In January 2007 provisions relating to the EU Transparency Obligations Directive, provisions relating to amendments to the EU First Company Law Directive and provisions relating to electronic communications with shareholders came into force.</p>
More efficient and more effective capital markets as a result of greater confidence in the framework for corporate and insolvency activity arising from greater transparency and stronger participation	<p data-bbox="468 718 716 739">Financial Reporting Council</p> <p data-bbox="468 756 1089 979">2.276 The Department sponsors the Financial Reporting Council, the independent UK regulator for corporate reporting, corporate governance, auditing and the actuarial profession. The Department has worked closely with the FRC throughout the year on our shared objectives. For example on 12 April 2006 the Department and FRC published research jointly commissioned from Oxera into competition and choice in the audit market, which the FRC has followed up with a public consultation and further detailed discussions with market participants on ideas emerging from the consultation.</p> <p data-bbox="468 996 670 1017">Corporate governance</p> <p data-bbox="468 1034 1089 1388">2.277 The Department has continued its activities to improve understanding of the impact of corporate governance on business performance and to encourage the development of links between the research community and business. In July, it co-funded with the Economic and Social Research Council and the Advanced Institute of Management, a Corporate Governance “Ideas Factory”. This was an innovative and interactive approach, bringing together academics, business, the investment community and other market players, to identify policy relevant research. The results of the projects selected will be available summer 2007. The second Departmental corporate governance research conference was held in January and brought together speakers with a range of perspectives on corporate governance. It also launched the publication of the King’s College Report into the key drivers of good corporate governance, commissioned by the Department in 2005.</p> <p data-bbox="468 1406 603 1426">Insolvency law</p> <p data-bbox="468 1444 1049 1541">2.278 The Insolvency Act 1986 provides the legal framework for insolvency law. The Insolvency Service is undertaking work to consolidate and modernise the underpinning secondary legislation in order to provide clearer and more effective insolvency law.</p>

Plans for 2006-07

Progress in 2006-07

EU actions will improve the operation of capital markets, promote market liberalisation in the interests of companies and investors and reduce regulatory burden

EU

2.279 The Department continued negotiations on proposals contained in the EU Company Law Action Plan published in 2003.¹¹⁵ The legislative process was completed for the Directive amending the Capital Maintenance Regime (Second Directive) and the Directive on Board Members' Responsibilities and the Improvement of Financial and Key Non-Financial Information (Revision of the Fourth and Seventh Directives). These Directives need to be implemented by April and September 2008 respectively. Negotiations also started on the Shareholder Rights Directive, published by the Commission in January 2005.¹¹⁶

2.280 The Department achieved a major campaigning and negotiating success in influencing the outcome of the European Commission's review of the Company Law Action Plan and emphasising the need for future EU action, like the UK company law reform programme, to promote enterprise, enhance competitiveness, and stimulate investment and wealth creation. This resulted in Commission proposals (announced in November) that:

- substantially reduced the number of EU proposals in the pipeline;
- reflect better regulation proposals, in particular the objectives of simplification and reducing administrative burdens; and
- emphasise the need for a flexible regulatory framework that serves the needs of EU companies.

Improve the efficiency and effectiveness of company registration, compliance, investigation and insolvency to protect investors, business and other stakeholders

Insolvency Service

2.281 The Insolvency Service set a planned efficiency target of £5.6 million for 2006-07, which it exceeded, achieving efficiency savings of £6.07 million. The Companies Investigation Branch (CIB) of the Insolvency Service undertook 174 investigations under the Companies Act 1984 into corporate abuse. It is the practice not to announce or confirm the existence of these investigations, but an exemption was made in the case of Farepak Food & Hampers Ltd because of the large public interest and the fact that the company was already in administration.

Companies House

2.282 Companies House has continued to see growth in the number of documents filed electronically. This provides greater security for companies submitting data to the companies register, helping in the fight against fraud, and it improves integrity of the register by speeding up the registration process and resulting in fewer rejected documents. Overall 37% of documents are now filed electronically including 54% of Annual returns and 5.1% of accounts; 86% of companies are incorporated electronically. Successful communications with customers ensures that compliance levels remain high at 95.6% for accounts and 94.2% for Annual Returns.

Companies House

2.283 Companies House is an executive agency of the Department. Its main functions are: to incorporate and dissolve limited companies; to examine and store company information delivered under the Companies Act and related legislation; and to make this information available to the public. Companies House operates as a trading fund, with its expenditure covered by the fees it charges.

2.284 Please refer to the Annual Report of Companies House for further details.¹¹⁷

The Insolvency Service

2.285 The Insolvency Service is responsible for matters relating to corporate and individual insolvency. Its principal functions are: preliminary investigation and administration of compulsory insolvency and acting as interim receiver and provisional liquidator in public interest cases; acting as trustee/liquidator in compulsory insolvencies where no private sector practitioner is appointed; reporting criminal offences in compulsory insolvencies and taking disqualification proceedings against any unfit directors of failed companies; authorisation and regulation of private sector insolvency practitioners; provision of banking and investment services for bankruptcies and liquidations; and policy advice to Ministers on insolvency issues.

2.286 The Insolvency Service operates under a net control regime, under which the costs of case administration are met from fees. The Service is funded by the Department in respect of its work on investigation and enforcement and the development of insolvency policy. As of 1 April 2006 the Department's Companies Investigation Branch transferred to The Service and this work is also funded by the Department. The Service also receives funding by HM Revenue and Customs to assess and pay statutory entitlement to redundancy payments when an employer cannot or will not pay its employees.

2.287 Please refer to the Annual Report of the Insolvency Service for further details.¹¹⁸

Figure 2.21 Redundancy payments

(£million)	2005-06 Outturn	2006-07 Outturn	2007-08 Estimate	2008-09 Estimate
Payments	289.7	244.6	293.8	255.0
Receipts	37.0	40.0	35.0	35.0

Figure 2.22 Expenditure on ensuring fair markets (£ million)

	2003-04 Outturn	2004-05 Outturn	2005-06 Outturn	2006-07 Outturn	2007-08 Plans
Extending Competitive Markets	169.2	105.4	77.8	75.4	100.1
<i>of which:</i>					
Non Departmental Public Bodies:	26.5	28.6	32.8	26.4	29.0
Competition Commission	19.6	21.1	24.8	19.1	21.3
Competition Service	2.9	3.7	3.6	3.7	4.1
National Consumer Council	4.0	3.8	4.4	3.6	3.6
Citizens' Advice	36.0	27.0	26.8	24.4	24.4
Other consumer protection activities	31.0	56.7	25.1	5.3	7.3
Financial Inclusion Fund (including Face to Face Debt Advice)	0	0	0	16.6	32.2
Ofcom	70.2	-12.0	-15.0	-2.8	
Postwatch	0.3	-1.0	-0.2		
Membership of WTO and other trade promotion	4.5	4.8	7.2	4.5	6.4
SITPRO	0.7	1.3	1.0	1.0	0.8
Maximising Potential in the Workplace	90.1	106.2	124.7	71.2	93.7
Employment Relations Programmes	22.1	18.1	12.4	10.7	12.7
ACAS	45.8	47.3	58.3	51.4	41.8
Paternity Pay	20.0	37.8	50.0	6.7	35
Office of Manpower Economics	2.2	2.9	4.0	2.4	4.2
Corporate Activity and Insolvency Framework	259.7	196.4	279.4	243.7	312.0
<i>of which:</i>					
Redundancy Payments Service	248.6	186.4	252.7	204.6	258.8
Insolvency Service	3.7	0.6	12.9	34.4	45.1
Companies House	-1.6	-0.4	-0.5	-2.3	-0.4
Investor Protection programmes	9.0	9.7	14.3	7.0	8.5

Notes:

- The total spend given here for each business plan objective corresponds with the total of the Resource DEL, Resource AME and Capital DEL spend given in tables 2 and 3 in section 6.3.
- The figures shown as 2007-08 plans reflect the original DTI budgets. These will be allocated to its successor departments created in June 2007 (BERR and DIUS, see section 1.1) in due course.
- See page 102 for spend on export control.



Section 2.7

Securing sustainable energy

Introduction

2.288 The Government's approach has been successful in moving the UK towards its energy goals, but significant challenges remain. While the UK remains one of the few countries on track to meet and go beyond its commitments under the Kyoto agreement, the 2010 carbon reduction target is very challenging. There are growing concerns about diversity of supply as North Sea oil and gas production declines and existing coal and nuclear generating plants close down. Meanwhile, global demand for fossil fuels is increasing, and there is no agreement on concerted international action on greenhouse gases when the Kyoto agreement expires in 2012.

2.289 To address these continuing challenges, the Government set out its strategy in "Meeting the Energy Challenge", published in May 2007. It outlined international and domestic action to address the twin challenges of:

- tackling climate change by reducing carbon dioxide emissions both within the UK and abroad; and
- ensuring secure, clean and affordable energy as we become increasingly dependent on imported fuel.

2.290 The White Paper addresses issues of demand and supply covering electricity, heat and transport. It contains proposals resulting in:

- carbon savings of between 23 and 33 million tonnes of carbon (MtC) in 2020 (including the effect of EU Emissions Trading);

Key achievements 2006-07

- May 2007: publication of "Meeting the Energy Challenge" (see page 90) as well as launch of a major consultation on whether the private sector should be allowed to build new nuclear power stations (see page 101)
- Successful work with industry to bring additional gas import and storage infrastructure on stream, helping to ensure adequate energy supply during the past winter, and lower prices (see page 99)
- Record number of applications for UKCS exploration and production licences under the 24th Licensing Round (see page 100)
- UK one of only eight countries around the world to have installed over 2GW of onshore and offshore wind capacity (see page 92)
- Announcement of a competition for a commercial-scale carbon capture and storage demonstration plant (see page 97) – when operational, this will make the UK a world leader in this technology
- Launch of the prospectus for the Energy Technologies Institute, winning firm commitments of funding from the private sector (see page 97)
- Delivering extra help to the most vulnerable fuel poor over the winter (with OFGEM and DWP) (see page 94)
- Spring European Council agreement on EU energy policy, largely reflecting UK goals and ambitions (see page 91)

- greenhouse gas emissions 26-32% lower than 1990 levels in 2020; and
- an improvement in the energy efficiency of our economy by around 10% between now and 2020, over and above the 25% improvement we already expect over that period.

2.291 Together with proposed new climate change legislation as set out in the draft Climate Change Bill this will allow the UK to establish the conditions necessary for a successful transition to a low carbon economy delivering reliable, safe and competitively priced energy.

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BPO – Security of energy supply	99

Budgetary spend on energy 112

SR04 PSA 4 – Energy

Assessment of progress:
set out by sub-target below

“Lead work to deliver the goals of energy policy:

- (i) Reduce greenhouse gas emissions by 12.5% from 1990 levels in line with our Kyoto commitment and to move towards a 20% reduction in carbon dioxide emissions below 1990 levels by 2010, through measures including energy efficiency and renewables. Joint with the Department for Environment, Food and Rural Affairs and Department for Transport;
- (ii) Maintain the reliability of energy supplies;
- (iii) Eliminate fuel poverty in vulnerable households in England by 2010 in line with the Government’s Fuel Poverty Strategy objective. Joint with the Department for Environment, Food and Rural Affairs;
- (iv) Ensure the UK remains in the top three most competitive energy markets in the EU and G7.”

2.292 The Government remains on course to deliver on the security of supply and competitiveness targets, and on the greenhouse gas component of the climate change target. Meeting the carbon dioxide emissions and fuel poverty targets, however, remains extremely challenging.

Action to address slippage

“Meeting the Energy Challenge”¹¹⁹ outlines an ambitious, evidence-based package of measures, building on the proposals and conclusions in our 2006 Energy Review.¹²⁰ The measures it contains will result in:

- carbon savings of between 23 and 33 million tonnes of carbon (MtC) in 2020 (including the effect of EU Emissions Trading);
- electricity consumption being 8-15% lower in 2020 and gas consumption up to 15 billion cubic metres lower (roughly 13% of projected demand);
- an improvement in the energy efficiency of our economy by around 10% between now and 2020, over and above the 25% improvement we already expect over that period; and
- new initiatives to taking around 200,000 households in the UK out of fuel poverty.

The newly created Office of Climate Change will co-ordinate climate change activity across Government to provide a shared resource for analysis and development of climate change policy and strategy, and will be a key resource to help achieve the challenging targets set to reduce carbon dioxide emissions.

Alongside the White Paper, a consultation document “The Role of Nuclear Power in a Low Carbon UK Economy” was also published, to allow for a decision before the end of 2007 whether it is in the public interest for companies to have the option for new nuclear build available for investment decisions.¹²¹

The EU heads of government at the Spring Council in March 2007 agreed a new strategy to address issues around climate change and energy security. Influenced by the UK, these included commitments to competitive energy markets and cuts in greenhouse emissions, and a central role for the EU Emissions Trading Scheme as the potential basis for a global carbon market. The agreement included targets to 2020 for 20-30% reductions in greenhouse gas emissions and a 20% share of energy from renewables.

SR04 PSA 4 (i) Greenhouse gas emissions/carbon dioxide emissions

Current position: ON COURSE

2.293 The UK remains on track to meet its Kyoto Protocol target to reduce greenhouse gas emissions by 12.5% below base year (1990) levels by 2008-2012. Latest provisional estimates show that total UK greenhouse gas emissions in 2006 had fallen by 15% below 1990 levels. Latest projections suggest that by 2010, greenhouse gas emissions will be 23.6% below 1990 levels, around double our Kyoto target.

Figure 2.23 Greenhouse gas emissions against the Kyoto target¹²²



2.294 In addition to its Kyoto commitment, the UK also has a domestic goal of reducing its carbon dioxide emissions (as opposed to all greenhouse gases) by 20% below 1990 base levels by 2010. Progress towards the UK's domestic goal is proving more challenging. Latest projections suggest that, taking into account the impact of the EU Emissions Trading Scheme (ETS) and other measures in the Climate Change Programme,¹²³ the UK will have reduced CO₂ emissions by around 16% below 1990 levels by 2010, saving 12 million tonnes of carbon per annum by 2010 compared with 1990.

Factors affecting performance

2.295 The UK's CO₂ emissions fell by about 5% between 1990 and 2006 based on latest provisional estimates. However, higher than anticipated levels of economic growth and the recent rise in global energy prices, which has altered the relative prices of coal and gas in favour of coal-fired generation, have led to increases in our CO₂ emissions in recent years. The Government used the new Climate Change Programme Review and the recent Energy Review to assess both the impact of existing policies and the potential contribution of new policy options, culminating in the 2007 White Paper.

2.296 The largest single potential contributor to emissions reductions is the EU Emissions Trading Scheme (ETS), the world's most significant step in establishing a carbon price. The EU heads of government recently reaffirmed their commitment to the scheme at the 2007 Spring Council. A key step in building UK and EU consensus on emissions trading is the UK Manifesto on the EU ETS3, launched in March 2007.¹²⁴ The Government published the approved National Allocation Plan for Phase II of the scheme to the December 2006 deadline and it was accepted unchanged by the EU. The Plan sets out the annual allocations for individual installations covered by the scheme for the years 2008-2012 and will deliver savings of 29MtCO₂ each year against projected business-as-usual emissions. The UK's results for the first year of the EU ETS (2005) showed excellent compliance, and the European Commission results show that the UK set one of the most challenging limits on carbon emissions among all Member States.

2.297 The Draft Climate Change Bill,¹²⁵ published in March 2007, set out the

Government's proposed long term framework for tackling climate change including putting into statute our long-term goal to achieve a 60% reduction in CO₂ emissions, and a requirement for Government to report at least every five years on current and predicted impacts of climate change and on its proposals and policy for adapting to climate change.

2.298 Renewable energy is one of the key means to achieve carbon savings, and this area has continued to grow – in February 2007, the UK became one of only eight countries around the world to have installed over 2GW of wind capacity, and at March 2007 the UK had some 2,041 MW of installed onshore and offshore wind capacity. Measures in the Energy White Paper should enable us to get 15% of our electricity generation from renewables by 2015 by increasing the level of the Renewables Obligation, ensuring a boost to investor confidence, and confirming the introduction of banding. A consultation on specific bands, and other proposals to strengthen and modify the RO was published alongside the White Paper.¹²⁶ The EU has also set itself an ambitious goal that 20% of the EU's energy (heat, transport and electricity) should come from renewables by 2020. The Commission has been asked to bring forward detailed proposals – including for each Member State's contribution to the target – by the end of this year. After a decision has been reached on our contribution to the target, the Department will bring forward appropriate measures to deliver the necessary increase in renewable energy. In the meantime, the measures and market framework set out in the Energy White Paper allow us to make significant progress on this important agenda.



One of the UK's onshore windfarms, Cefn Croes (Wales)

SR04 PSA 4 (ii) Security of supply

Current position: ON COURSE

2.299 "Meeting the Energy Challenge" included measures to address the UK's increasing reliance on imported oil and gas as well as the need for private sector investment in gas infrastructure, power stations and electricity networks. These included maximising economic production from our domestic fossil fuel reserves; promoting effective and transparent international energy markets; improving the UK investment framework through better market information and planning reforms.

2.300 Our energy market is continuing to bring forward significant investment in new infrastructure. Between 2006 and 2008 additional gas import capacity equivalent to about 70% of Britain's annual gas consumption will come on stream. On the electricity side, several generating companies have announced plans for the construction of additional capacity to meet future demand as existing capacity reaches the end of its life.

2.301 Ofgem have now published¹²⁷ the first stage of National Grid's Winter Consultation for 2007 – 2008. While they emphasise that there is no room for complacency, significant new investment in infrastructure bringing gas into Great Britain leaves the position generally looking more comfortable than last year. However, the ever increasing interlinkage between UK and international gas markets means that supply shocks overseas can be expected to be reflected in gas availability and prices here.

Factors affecting performance

2.302 In the long term, as a result of declining UK Continental Shelf production, the UK will move to a large and growing import requirement by the end of the decade, and new challenges emerge such as:

- longer supply chains, some through less stable countries or uncompetitive markets;
- new infrastructure and import capacity not being fully utilised as a result of uncompetitive practices in supplier markets; and
- the possibility that new investment in overseas and domestic infrastructure is not made in time to meet demand.

2.303 The Government response to the consultation “the Effectiveness of Current Gas Security of Supply Arrangements” was published alongside the May 2007 White Paper.¹²⁸ Following consideration of responses and supporting analysis, the Government, as announced in the White Paper, will encourage

energy efficiency, improve information arrangements and industry engagement, promote open and competitive markets internationally, improve the planning and licensing regimes for gas infrastructure projects and improve emergency planning arrangements.

SR04 PSA 4 (iii) Fuel poverty

Current position: SLIPPAGE

2.304 Progress against the Government’s fuel poverty targets is published in an annual report (the UK Fuel Poverty Strategy fourth Annual Progress Report, published June 2006). “Meeting the Energy Challenge” outlined additional measures to better target assistance, offer more benefit entitlement checks, and encourage more companies to provide programmes of assistance for vulnerable customers.

2.305 The number of households in fuel poverty in 2004 remained the same as 2003, down from 5.1 million in 1996 to 1.2 million households in England, with 1.0 million of those being vulnerable households. The UK-wide figure fell between 1996 and 2004 from 6.5 million to 2 million, with vulnerable households in fuel poverty falling from 5 million to 1.5 million. Analysis of the effects of fuel prices and incomes, excluding energy efficiency improvements, suggests that the total number of vulnerable households in fuel poverty is likely to rise, by around 1 million vulnerable households in England between 2004 and 2006 with proportional increases in the Devolved Administrations.

Factors affecting performance

2.306 The Department shares responsibility with Defra for this element of the PSA target. Strategies to end fuel poverty depend ultimately on improving housing standards and raising incomes, policies that have been given priority. The main policy levers currently used include benefits and tax credits, Winter Fuel Payments, the Warm Front programme, the Energy Efficiency Commitment and the Decent Homes Standard. These are the responsibility of a number of Departments, including DWP, CLG and Defra. Whilst good progress has been made, recent energy price increases threaten our ability to meet Government targets on fuel poverty.

2.307 The White Paper sets out further detail of the continuing activity to tackle fuel poverty. A full examination of the policy framework is currently underway, and while the policies and measures outlined in the White Paper will take a further 200,000 households out of fuel poverty by 2010, the long-term way forward will depend on the conclusions drawn after the policy review. Next steps will be set out in the UK Fuel Poverty Strategy Fifth Annual Progress Report in the summer 2007.

SR04 PSA 4 (iv) Energy market competitiveness

Current position: ON COURSE

2.308 Despite rising domestic energy prices and the international impacts of the increase in underlying fossil fuel prices, electricity and gas markets in the UK remain amongst the most competitive in the EU on both industrial and domestic prices. The latest OXERA report,¹²⁹ published in October 2006 and based on preliminary data for 2005, confirms the number one ranking for the competitiveness of the UK's energy market and the ranking of both gas and electricity markets individually in first position.

2.309 Energy prices have generally increased in the year to Q1 2007, with domestic electricity prices, including VAT, rising by 21% in real terms. Domestic gas prices, including VAT, rose by 34% in real terms over the same period. Average industrial electricity prices including the Climate Change Levy (CCL) rose by 15%, though industrial gas prices including CCL fell by 15%, and average coal prices decreased by 7%, in real terms, in the year to Q4 2006.

2.310 Estimates for January 2007 show that prices in the UK including taxes were below the EU average (median) for domestic electricity and were below the average for domestic gas consumers. All six major domestic suppliers have announced reductions in domestic gas and electricity tariffs to take effect in spring or early summer 2007.

2.311 For industry, estimated prices in January 2007 showed that electricity and gas prices were above the EU average for all consumers. Historically, prices to industrial users have been below the EU average, and right up to October 2005 industrial prices were no higher than the EU average, except for the very largest energy consumers.

Factors affecting performance

2.312 Increases in oil prices are the main factor behind rising gas prices as the two are often contractually linked. UK wholesale gas prices have been more volatile and higher over the last two years because of the historically tight supply/demand balance over the winters. Increases in the price of gas affect electricity prices as gas is an important part of the UK generation mix. Electricity prices have also risen as a result of higher international coal prices, the recovery of wholesale electricity prices from unsustainably low levels and the introduction of the EU Emissions Trading scheme in 2005.

2.313 The Government strategy for gas markets aims to help all gas consumers by working towards full energy market liberalisation in the EU, and improving the workings of the market – supporting the European Commission in their

efforts to enforce the energy liberalisation legislation and investigate the operation of energy markets across the EU. As the energy market in Europe moves toward full liberalisation there will be further increases in competitive pressure in the UK and Europe.

2.314 The main factor behind higher oil prices over the past few years has been strong global oil demand growth driven by robust economic growth – particularly China and the US. This has eroded the cushion of global spare oil production capacity and upgrading capacity in the refining sector. This lack of spare capacity has left the market less able to cope with supply disruptions and exacerbated market concerns about continuity of supply.

Business plan objective: sustainability and the environment

2.315 The reduction of carbon emissions is a cornerstone of the Government's energy policy, as confirmed in the White Paper "Meeting the Energy Challenge" published in May 2007. The aim of this objective is to promote sustainability, through the delivery of the low carbon aims of the Energy White Paper, at least cost to the UK economy – through promoting, nationally and internationally, market mechanisms aimed at delivering climate change goals; the development and application of low carbon technologies and the regulation of the offshore energy industries.

Plans for 2006-07

Reduce greenhouse gas emissions by 12.5% from 1990 levels in line with the UK's Kyoto commitment, and move towards a 20% reduction in carbon dioxide emissions from 1990 levels by 2010, and a further reduction in carbon dioxide emissions by 60% by 2050, through measures including energy efficiency and support for renewable energy, working with the Department for Environment, Food, and Rural Affairs (Defra) and the Department for Transport (DfT)

Progress April 2006 – May 2007

2.316 As regards domestic initiatives, please refer to page 90 above (PSA 4).

International

2.317 The UK has already taken a strong lead internationally on climate change and the progress made in cutting our greenhouse gas emissions at the same time as maintaining economic growth makes us an exemplar to other countries. Important progress was made on climate change under the UK G8 and EU Presidencies in 2005 and this momentum continued in 2006. A number of key initiatives and themes were launched at the Gleneagles Dialogue ministerial meeting in Monterrey in October 2006:

- a joint UK-South African approach to finding alternative international climate change frameworks to put before negotiators;
- a joint UK-Mexico-Spain-Development Bank study testing the applicability of the World Bank Energy Investment Framework to renewables projects;
- a European Commission energy efficiency conference to explore the scope for a global agreement; and
- widespread agreement on the vital importance of developing and deploying carbon capture and sequestration.

2.318 Germany will host the next Gleneagles Dialogue ministerial meeting in September 2007.

2.319 A Climate Change Communication was published by the EC in January, putting Europe in the forefront of global leadership on energy and climate change, culminating in the conclusions made at the Spring Council in March 2007 including an independent EU commitment to achieve at least a 20% reduction of greenhouse gas emissions by 2020.

Plans for 2006-07 Progress April 2006 – May 2007

Increase the proportion of electricity generated from renewable sources, consistent with the Department's wider goals for affordable and reliable energy supplies

2.320 See also page 92 above.

Energy White Paper

2.321 Measures in the Energy White Paper should enable us to get 15% of our electricity generation from renewables by 2015 by increasing the level of the Renewables Obligation, ensuring a boost to investor confidence, and confirming the introduction of banding. A consultation on specific bands, and other proposals to strengthen and modify the RO was published alongside the White Paper.

Renewables

2.322 Renewables generation is on an upward trajectory. In 2004, 3.58% of the UK's electricity supply came from all sources of renewable energy, compared to 2.12% in 1997. In 2005, 4% of the UK's electricity supply came from Renewables Obligation eligible sources of renewable energy, and 4.2% from all sources of renewable energy.

2.323 The EU Spring Council in March, amongst other targets, announced an ambitious target of 20% of EU energy to come from renewables by 2020. Details of how this will impact on the UK are yet to be decided by the Commission.

Support a wide range of emerging low carbon technologies that could play a role in the longer term UK energy mix, through funding R&D and demonstration projects, and working to remove barriers to deployment

Emerging low carbon technologies

2.324 The Department aims to speed deployment of sustainable and affordable low carbon technologies that will contribute to the long term UK target of reducing CO₂ emissions. The Department currently supports private sector investment in a portfolio of emerging technologies and industries through both research and development through the Technology Programme, and through a number of grant programmes for demonstration and early phase deployment.

2.325 In September 2006 the Department launched the £50 million Hydrogen, Fuel Cell and Carbon Abatement Technologies Demonstration Programme. The first call for proposals was made in October, focusing on the pre-commercial demonstration of key components and systems to support carbon abatement technologies.

2.326 The Environmental Transformation Fund was announced in the Pre Budget Report as a new joint fund with Defra, for energy efficiency and low carbon technologies. On the technology side the fund will support renewable energy, biofuels and other non-nuclear low carbon technologies including carbon capture and storage, with the intention of following on from research and development and supporting demonstration and pre-commercial deployment. The fund is due to open in 2008, and further details will be announced following the current Comprehensive Spending Review.

Energy Technologies Institute

2.327 In September 2006, the Secretary of State for Trade and Industry published a Prospectus setting out the aims of the Energy Technologies Institute, to accelerate the development of secure, reliable and cost-effective low-carbon energy technologies towards commercial deployment. The Institute will be a partnership with the private sector. A number of high profile private sector companies have already announced their intentions to be involved and the Department has announced that it is prepared to provide up to £500 million, creating the potential for a £1 billion Institute over 10 years. See also section 2.4 (science).

Plans for 2006-07

Progress April 2006 – May 2007

Implement the Microgeneration Strategy as published in March 2006, to create the conditions under which microgeneration becomes a realistic alternative or supplementary energy generation source for the householder, for the community, and for small businesses

Microgeneration

2.328 The Microgeneration Strategy contains actions to tackle some of the wider barriers preventing development of a sustainable market for microgeneration technologies and progress is underway on implementing all of these actions by April 2008. These range from an assessment of existing communications around microgeneration to a review of the permitted development regime. Out of a total of 25 actions, 7 have been completed as at March 2007. Progress can be tracked on the Department's website.¹³⁰

2.329 The Government provides grant funding for the installation of microgeneration technologies under the Low Carbon Buildings Programme (LCBP). This replaces the Clear Skies & Solar PV Major Demonstration Programmes. Phase 1 was launched in April 2006. £30 million was made available to support projects in households, community organisations, housing associations, private, public and non-profit sectors. £1.5 million was used to smooth the transition between the previous capital grant programmes and the LCBP. In the Budget 2007, an additional £6 million was allocated to the household stream. This funding stream was subsequently suspended for two months for consultation on re-structuring the scheme to make best use of the money. It was re-launched in May 2007.

2.330 Phase 2 takes forward the Chancellor of the Exchequer's 2006 Budget commitment of an additional £50 million of capital grant funding for the installation of microgeneration technologies in the public and charity sectors (social housing, libraries, hospitals, schools etc).

2.331 Further information can be found on the Department's website.¹³¹

Work with the offshore oil, gas and renewables industries to minimise the number of significant environmental incidents and the impacts of offshore developments, and regulate without undue burden on the industry or taxpayer liability

Minimise offshore environmental incidents

2.332 There have been no significant offshore oil and gas environmental incidents and all activities have been authorised only after demonstrating that they will not have an adverse environmental impact. Permits issued under the Oil Pollution Prevention and Control (OPPC) Regulations resulted in the UK achieving the 15% reduction in oil in produced water discharges required under OSPAR Recommendation 2001/01. Trading under the OPPC Regulations started from 1 January 2007 with a view to sharing the costs of this reduction across the offshore oil and gas industry. Offshore oil and gas EUETS Phase II allocations were successfully negotiated with Defra.

2.333 A review of the Department's Guidance Notes on Decommissioning of Offshore Installations and Pipelines was completed in September and updated guidance placed on the Department's website.¹³²

Business plan objective: security of energy supply

2.334 “Meeting the Energy Challenge” addressed two main security of supply challenges: the increasing reliance on imports of oil and gas; and the need for substantial and timely private sector investment over the next two decades in gas infrastructure, power stations, and electricity networks.

Plans for 2006-07

Progress April 2006 – May 2007

Support well-functioning UK energy markets to ensure secure, sustainable, affordable energy through working with National Grid, OfGEM, Energywatch and industry to maintain effective regulatory and consumer protection regimes, and support and encourage private sector investment in infrastructure

2.335 See also PSA 4.ii (page 93).

Energy markets

2.336 The Department has been working closely with Ofgem, National Grid and business to ensure early action is taken to maximise gas and electricity supplies, especially for the winter, and to ensure good communications with industry. The Department’s discussions with the Energy Intensive Users Group, Ofgem, National Grid and other groups have helped us to focus efforts on maximising gas and electricity supplies, improving the operation of the market, encouraging demand-side response and pursuing fair access to markets across Europe.

2.337 The Business Energy Forum was established mid-2006 and met three times in the latter half of that year. Jointly chaired by the Secretary of State and the Director General of the CBI, it enables discussion of strategic energy issues of concern to industry, with a particular focus on winter energy supplies and price impacts, and seeks to ensure that accurate and timely information is available to businesses.

Infrastructure

2.338 The Government also seeks to facilitate the market delivery of new infrastructure to import oil and gas. A Parliamentary Statement of Need was tabled on 16 May 2006 setting out the context for the need for additional gas supply infrastructure – import facilities, storage and pipelines. This year has seen significant new import infrastructure (pipelines and LNG facilities) being delivered by the private sector. The most immediate projects are a further enhancement to the import capacity of the Bacton-Zeebrugge interconnector completed ahead of schedule in October 2006, the construction of the Langeled pipeline from Norway (which started flowing gas on 1 October 2006), the BBL (Bacton – Balgzand) pipeline from the Netherlands, commissioned on 1 December 2006, and the Teesside LNG (Liquefied Natural Gas) importation project which received its first cargo in February 2007.

2.339 “Meeting the Energy Challenge” set out arrangements to publish a new Energy Markets Outlook to provide information on key drivers of energy supply and scenario-based analysis of the future demand-supply balance.

Plans for 2006-07

Work with the EU to formulate EU energy policy, including encouraging market liberalisation overseas, and the creation of market mechanisms to deliver climate change goals; and internationally on security of supply and climate change

Progress April 2006 – May 2007**Energy liberalisation in Europe**

2.340 The energy market in continental Europe has become increasingly important to the UK as we move to increased import dependency, and the Government and Ofgem have continued to work with the European Parliament, the Commission and other Member States to promote efficient and effective competitive markets across the EU. The UK initiated the process of agreeing a common EU energy policy at the Hampton Court informal council during the UK presidency in 2005 – the publication in January 2007 of the EC's Strategic Energy Review (SER), and the subsequent Spring European Council conclusions in March were major milestones in that process.

2.341 With energy interdependence increasing, developing the global dialogue between producer and consumer countries through the biennial ministerial meetings of the International Energy Forum (IEF) is important in promoting greater market stability, transparency and understanding. The 10th International Energy Forum took place in Doha in April 2006 where we were able to exchange views about helping energy markets to function more effectively and where there was close engagement about the content and direction of policies on production and demand. Since the Doha meeting the UK has secured a seat on the Executive Board of the IEF Secretariat.

2.342 The Russian Government set energy security as the priority for its G8 Presidency. Over the course of the negotiations the UK, working alongside our European partners, succeeded in securing agreement to the St Petersburg Statement on Global Energy Security Principles. This commits the G8 to open, transparent, and competitive energy markets based on equitable and stable legal and regulatory frameworks. The Secretary of State and Russian energy minister Viktor Khristenko agreed to establish a regular UK-Russia Energy Forum to promote joint work on issues of mutual interest such as energy efficiency and inward investment. The forum will also provide a means to support the EU's common external energy policy by reinforcing EU messages towards Russia.

Through collaboration with industry, work to maintain strong investment, and additional North Sea exploration to maximise the economic benefit, and contribution to security of supply, from the UK's coal, oil and gas reserves

North Sea investment

2.343 "Meeting the Energy Challenge" re-states the commitment to work with industry to stimulate North Sea investment and activity, including assessment of the potential for establishing infrastructure West of Shetland and maintaining an appropriate fiscal regime to attract investment.

2.344 The 24th Licensing Round awards were announced in February 2007, with continuing record numbers of oil and gas licences. Offers of 150 oil and gas exploration and production licences were issued to 104 companies covering 246 blocks – continuing the record numbers of licences issued last year.

2.345 Latest figures show that 2006 was a significant year for discovering oil and gas – the highest level since 2001. It is estimated that the equivalent of at least half a billion barrels have been discovered in 2006 and around 40% of exploration wells have found potentially commercial oil and gas accumulations.

2.346 This year the Government has also established the Coal Forum, which met three times, bringing together coal-fired generators, coal producers and suppliers, power plant suppliers, trade unions, small businesses and other parties in order to help them to find solutions, through improved communications and fact-based analysis, to secure the long term future of coal-fired power generation and UK coal production.

Plans for 2006-07 Progress April 2006 – May 2007

Ensure that the effects of significant disruptions to electricity, gas or oil (including petrol) supplies are minimised through effective emergency planning

Emergency planning

2.347 A new Gas and Electricity National Emergency Plan (NEP) was published in August 2006. The Plan will be tested in a major cross-Government and industry energy emergency exercise in July 2007. Gas and electricity priority user arrangements are being updated.

2.348 A strategic review of gas and electricity emergency arrangements and legislation is underway in conjunction with Ofgem, HSE and industry. A revised National Emergency Plan for Fuel is also being developed in conjunction with industry, local Government and others with an interest, drawing on the lessons learned from Exercise Gemini in May 2006, which simulated a national shortage of petrol and diesel. The Department will introduce later in 2007 a new Plan that is more flexible and quicker to implement than the previous arrangements.

2.349 All our emergency planning work is a partnership with industry, regulators and other parties in the public and private sectors.

2.350 The UK has international obligations to hold stocks of oil for use in the event of disruption. We are currently changing the basis of the UK system so that it is better placed to meet our obligations, which will increase in the long term as we import more oil as North Sea production declines.

Support Defra in seeking to eliminate fuel poverty in vulnerable households in England by 2010

Fuel poverty

2.351 Please refer to PSA 4.iii above (page 94).

Continue, through the Energy Review, the full assessment of options to help the UK make further progress towards its medium and long-term energy policy goals and, following a period of extensive public consultation and stakeholder engagement, make a Government policy statement

2.352 The Government's report on the Energy Review: "The Energy Challenge" was released on 11 July 2006. Subsequently a number of consultations were launched,¹³³ many of which helped formulate the Government's position on a range of energy issues published in the Energy White Paper in May 2007.

Nuclear energy

2.353 Following a court judgement in February 2007, the Secretary of State also committed to conducting a new consultation on nuclear energy – this was published alongside the White Paper in May 2007.

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Figure 2.24 Expenditure on secure sustainable energy (£ million)

	2003-04 Outturn	2004-05 Outturn	2005-06 Outturn	2006-07 Outturn	2007-08 Plans
Sustainability and the Environment	32.3	57.5	68.5	73.1	82.9
<i>of which:</i>					
New and Renewables Barriers Busting	22.2	26.7	23.1	15.4	14.1
Sustainable Energy Capital Grant		13.1	24.8	12.8	58.8
Photovoltaic Grant Scheme		4.5	4.0	11.8	4.0
New and Renewables – Capital Grant	-5.1	3.5	10.0	27.1	0
Capital Modernisation Fund	10.2	3.3	0	0	0
Other	5.0	6.4	6.6	6.0	6.0
<i>of which:</i>					
Environmental Surveys	2.5	2.5	2.5	2.5	2.5
Chemicals Notification	0.5	1.0	0.7	0.7	0.7
Chemicals Notification – Appropriations in Aid	-0.6	-1.4	-0.7	-0.7	-0.7
Consolidated Policy Studies Programme	1.6	2.5	1.8	1.7	1.7
Offshore Aerial Surveillance	0.3	0.3	0.3	0.3	0.3
EU Emissions Trading Scheme	-	0.4	0	0	0
Innovation Group	0.7	1.1	2	1.5	1.5
Security of Energy Supply	9.1	36.5	24.4	9.5	6.5
<i>of which:</i>					
Oil and Gas Maximising Recovery	8.2	7.1	6.4	5.3	6.5
Coal Operating Subsidy	0.2	0.0			
Coal Investment Aid	0.4	29.3	18.0	4.1	
Energywatch	13.3	13.5	13.0	12.3	10.9
Licence Fee Receipts	-13.0	-13.4	-13.1	-12.3	-10.8
Nuclear Security and Export Control	60.6	54.6	61.2	50.3	54.4
<i>Of which:</i>					
Export Licensing via Internet Service (ELVIS)					
Project and Safeguards Support	1.7	3.1	0	0	0.8
Nuclear support to the former Soviet Union	42.1	35.3	38.7	31.8	32.2
International subscriptions (non-proliferation)	14.1	15.6	20.4	18.0	18.2
Emergency Planning Work	2.7	0.6	1.0	0.5	0.2
Civil Nuclear Police Authority			1.1	0	3.0

Notes:

- The total spend given here for each business plan objective corresponds with the total of the Resource DEL, Resource AME and Capital DEL spend given in tables 2 and 3 in section 6.3.
- The figures shown as 2007-08 plans reflect the original DTI budgets. These will be allocated to its successor departments created in June 2007 (BERR and DIUS, see section 1.1) in due course.



Section 2.8

Managing Government assets and liabilities

Introduction

2.354 In previous decades, many key parts of energy policy were centrally-directed through nationalised industries. As a result of this legacy, the Government continues to be responsible for significant energy assets and liabilities, including British Energy, the costs of civil nuclear decommissioning, as managed through the Nuclear Decommissioning Authority, and residual liabilities arising from the coal, steel and shipbuilding industries including coal health claims. It also, through the Shareholder Executive, manages shareholdings in a number of Government businesses, including Royal Mail, British Nuclear Fuel Plc (BNFL), the Royal Mint and QinetiQ.

2.355 The Shareholder Executive works with Government departments and management teams to help Government businesses perform better, ensuring that Government is an intelligent and professional shareholder. It also has a wider corporate finance role, for example examining and negotiating applications for support under regional and industrial assistance programmes.

2.356 The Department also works to ensure nuclear security and safety, through supervisory and regulatory activities to protect the public and international safety. Substantial technical assistance is also given to former Soviet Union and East European countries in addressing nuclear legacy issues, to reduce the global threat posed by the potential spread of weapons and materials of mass destruction.

Key achievements 2006-07

- **Nuclear Decommissioning Authority on target to continue to achieve annual 2% efficiency gains (see page 105)**
- **£2 billion paid in compensation to claimants under the COPD coal health scheme, with 420,000 claims (out of 592,000) having been settled (see page 109)**
- **More than 140,000 claims settled in full under the Vibration White Finger (VWF) compensation scheme (out of a total of 170,000) with a total of £1.4 billion having been paid in compensation (see page 109)**
- **G8 Partnership against WMD: completion to time and to cost of the £21 million nuclear facility at Atomflot, Murmansk (to secure some three tonnes of highly enriched nuclear fuel for up to 50 years) – see page 110**
- **£917 million increase in value of six Shareholder Executive businesses (see page 108)**
- **Finalisation of new financing framework for the Royal Mail letters business (see page 106)**
- **Announcement of investment package of up to £1.7 billion of funding for the Post Office network (see page 107)**

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SR04 PSA 11

Assessment of progress: not yet assessed

Nuclear Decommissioning Authority

"Reduce the civil nuclear liability by 10% by 2010, and establish a safe, innovative and dynamic market for nuclear cleanup by delivering annual 2% efficiency gains from 2006-07; and ensuring successful competitions have been completed for the management of at least 50% of UK nuclear sites by end 2008."

2.357 The Nuclear Decommissioning Authority (NDA) was established on 1 April 2005 under the Energy Act 2004. The NDA is charged with cleaning up the UK's historic civil nuclear legacy at its sites safely, securely, cost effectively and in a manner that safeguards the environment for this and future generations. The NDA has developed the first ever strategy for tackling the legacy.¹³⁴ The programme is challenging and long term (over a hundred years). Civil liabilities were estimated by the NDA at £62.7 billion (undiscounted) and £30.6 billion (discounted) as of 31 March 2006.

2.358 The NDA has a statutory duty to provide support to communities near its sites and promote activities that benefit the social and economic lives of the communities.

2.359 The NDA is now a key player in the nuclear industry and is respected as an open and transparent organisation deploying innovation and engineering excellence.

Current position

2.360 The PSA applies to the Nuclear Decommissioning Authority (NDA). The PSA requires the NDA to:

- from 2006-07 deliver efficiency gains of 2% by means of a dynamic market in nuclear clean up;
- by 2008 – ensure successful competition of 50% of NDA sites; and
- by 2010 – reduce civil nuclear liability by 10%.

2.361 The PSA target is to be redrawn as part of the CSR 07 process in order to better reflect the reality of the NDA's operations.

2.362 Only one of the three elements of the PSA target is active – that for efficiency gains of 2% per annum with effect from 1 April 2006. The NDA planned and achieved a 2% efficiency gain twelve months early as demonstrated by end year audited results for 2005-06. The NDA is reporting that it is on target this year and predicts the efficiency gains at the end of the 2006-07 financial year will be about £40 million out of a total NDA budget of £2.2 billion.

2.363 The NDA has set out its proposals for achieving site competitions in its approved strategy.¹³⁵ This aspect of the target does not become active until 2008. Its relevance will be considered as part of the proposed review of the PSA.

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2.364 A key task for the NDA is to determine the final cost of the historic civil nuclear liability (legacy). The NDA is undertaking this by means of a management tool known as the Life Time Plan (LTP) which replaces the earlier systems in place prior to its set up. The annual LTP process sets out the complete range of activities that will need to be undertaken at each of the NDA's sites to bring them to their proposed end states. This can be said to represent the cost of the NDA's mission (i.e. its duties and responsibilities, including the running of its commercial operations). The data from individual sites' LTPs is combined to provide a national figure for the historic liability. The NDA is working to deliver a definitive liability figure by March 2008. The legacy should eventually be less than this if the NDA can succeed in driving it down through the introduction of competition in site clean up. This aspect of the PSA will also be subject to review.

2.365 The NDA manages efficiency gains through the fee mechanism in its contracts for site clean up. Contractors are required to deliver 7% efficiencies in order to access 5% fee bonus.

Business plan objective: managing Government assets and liabilities

2.366 The Department's challenge is to deliver safe, economic and efficient management of Departmental (and, where relevant, Government) assets and liabilities. The Shareholder Executive's mission is to work with Government Departments and management teams to improve fundamentally the Government's performance as a shareholder and to provide a source of corporate finance expertise within government.

2.367 The National Audit Office published its report "The Shareholder Executive and Public Sector Businesses" on 28 February 2007.¹³⁶ The NAO concluded that the Shareholder Executive provides value for money and has improved the way in which the Government acts as a shareholder.

Royal Mail

2.368 The Department finalised a new financing framework for the Royal Mail letters business at the end of the year. The framework, which the Secretary of State confirmed on 26 March 2007 via written statement to Parliament, provides Royal Mail with the financial freedom to manage its pensions deficit and to invest to improve performance and efficiency. This is a vital package of support from the Government for the business in a time when it faces the difficult challenges of declining mail volumes, increasing competition, management of its large pension deficit and the need to modernise and transform its operations to secure the efficiency savings required under the latest regulatory settlement. The Government has provided the financial framework for Royal Mail that it needs to secure its future success.

2.369 The agreed package comprises loan facilities to be provided by the National Loans Fund of £900 million, replacing and increasing the package agreed in 2002, and a further shareholder loan facility of £300 million to provide the company with adequate financial headroom. The package also includes the transfer of £850

million of reserves held by Royal Mail into an escrow account to support its pension fund. All financing will be provided on commercial terms.

The Post Office

2.370 On 14 December 2006 the Department launched a 12-week national consultation (administered by the Shareholder Executive) on proposals for the future of the Post Office network. The consultation closed on 8 March 2007 having attracted some 2,500 responses. The Department published its response document on 17 May 2007, after the period covered by this report. Publication was coupled with the Secretary of State's announcement of a package of funding worth up to £1.7 billion up to 2011 for the Post Office network, subject to EC State Aid clearance, with investment, stronger protections for local communities and more Outreach services very much at its heart.¹³⁷

2.371 Post offices play an important social and economic role in the communities they serve, but with widespread acceptance that the current size of the network is unsustainable (with losses rising to £4 million every week), the package of investment demonstrates the Government's commitment to maintaining a national network allowing people to have reasonable access across the whole country. The package will enable Post Office Ltd to strategically reshape the network to place it on a stable footing and includes the compensated closure of a maximum of 2,500 branches, partly offset by 500 new Outreach sites and the introduction of minimum access criteria, as well as up to £150 million a year support for the social network.



Customers at the Post Office

Corporate Finance

2.372 In this role over the last year, the Shareholder Executive continued to lead Government involvement in Bombardier Aerospace (an application for launch investment in connection with the proposed C Series aircraft) and Airbus (also an application for launch investment¹³⁸ in connection with the A350).

Plans for 2006-07	Progress in 2006-07
<p>Enhancing the value of six of the Shareholder Executive's portfolio companies (Royal Mail, Royal Mint, British Nuclear Fuels plc, QinetiQ, NATS and CDC) by £1bn by 2007 by improving the professional management of those businesses</p>	<p>Shareholder Executive portfolio</p> <p>2.373 The value of the businesses increased £917 million in 2005-06, bringing the aggregate total at the end of the second year of the three year review period to £2.6 billion (2006-07 data will become available later this year when the annual reports of these businesses for 2006-07 will be published). The 2005-06 performance was driven by strong contributions from BNFL, NATS and CDC offset by a reduction in value at Royal Mail as it produced a lower economic profit than the previous year. Although the Royal Mint again produced an economic loss in the year, the loss was smaller than in 2004-05 and hence value increased. Overall, whilst this represents a further significant value enhancement, it is still too early to say that the £1 billion target has been achieved on a sustainable basis.</p> <p>2.374 The current £2.6 billion takes no account of the challenges that several of the businesses face in the final year. In particular, 2006-07 was the first full year of new regulatory price control settlements for both Royal Mail and NATS that demand stretching efficiency savings. However, this will in part be offset by the value realised from the \$5.4 billion sale of BNFL's subsidiary, Westinghouse, to the Toshiba Corporation which completed in October 2006.</p>
<p>Continuing to emphasise quality of service and efficiency delivery in these businesses</p>	<p>2.375 This year Royal Mail posted its best ever annual quality of service results. Overall 11 of the 12 service targets set for the business in its licence were achieved or surpassed. First Class mail was 1% above target at 94% of letters arriving next day and Second Class mail was 0.4% above target recording 94.9% of mail delivered within three days. Royal Mail's business mail services which performed above target included Mailsort (for bulk mailers), Presstream (for publishers) and Postage Paid Impression "PPI" (for mail posted in pre-paid envelopes). Standard parcels also performed at their highest level since records began, 4.5% above target at 94.5%.</p>
<p>Applying professional expertise to other businesses owned by Government in order to improve value</p>	<p>2.376 The Shareholder Executive continued to expand its portfolio of government businesses in the year. It now works with 27 Government businesses, responsible to 12 Government departments. Following the transition of the Forensic Science Service from an executive agency to a government company, 100% owned by the Home Office, it was asked to establish a joint team to manage the Department's shareholder interests. The Shareholder Executive also agreed a remit with the Scottish Executive to advise on its shareholder interests in Scottish Water, and with the Department for Communities and Local Government in relation to the Ordnance Survey and QEII Conference Centre.</p>
<p>Ensuring that the Nuclear Decommissioning Authority (NDA) makes progress towards the PSA target of reducing the civil nuclear liabilities by 10% by 2010</p>	<p>2.377 See PSA 10 above (page 77)</p>

Plans for 2006-07 Progress in 2006-07

Effective management of the health and concessionary coal schemes (including lung disease, vibration and knee injuries schemes) and shipbuilders' liabilities

2.378 The Department is responsible for two schemes to compensate coal miners and their families in relation to Chronic Obstructive Pulmonary Disease (COPD) and Vibration White Finger (VWF). These are the biggest personal injury schemes in British legal history.

2.379 See also Notes 33 and 34 in the Accounts (section 5.6) for an overview of liabilities.

Chronic Obstructive Pulmonary Disease

2.380 Under the COPD scheme, the Department has registered 592,000 claims. £2 billion has been paid in compensation to claimants, with 420,000 claims having been settled. Nearly 296,000 post medical assessment process offers have been made, and 166,000 fast track offers. The COPD scheme is due to complete by Spring 2008.

Vibration White Finger

2.381 The total number of claims received under the Vibration White Finger (VWF) compensation scheme is 170,000, including about 24,000 deceased claims. More than 140,000 claims have been settled in full and 104,000 interim payments have been made, with a total of £1.4 billion having been paid in compensation. The Department aims to complete delivery of the VWF compensation substantially by Autumn 2007.

National Concessionary Fuel Scheme

2.382 The National Concessionary Fuel Scheme provides concessionary solid fuel (or cash in lieu) to former employees of the British Coal Corporation and, at the end of 2006, there were 105,341 beneficiaries in the Scheme. 24,121 beneficiaries took their entitlement as solid fuel and the remainder as cash in lieu.

British Shipbuilders Corporation

2.383 The Department is also responsible for managing the settlement of personal injury liabilities arising from the former employees of the British Shipbuilders Corporation on behalf of the Government. British Shipbuilders Corporation, the former nationalised shipbuilding company, still exists under statute even though the shipyards were sold off during the 1980s. Following a review of the Corporation's liabilities, and an increased likelihood of asbestos related claims from former employees, the Department has taken on the future liabilities of asbestos related claims in line with a Minute to Parliament in 1988 (at the time of re-privatisation) that the Government would meet any financial obligations arising from the Corporation in the future.

Coal Authority

2.384 The Coal Authority continued to discharge its statutory obligations in respect of subsidence and surface damage arising from historic coal mining, and to progress its national programme of minewater treatment. In October 2006, in conjunction with the British Geological Survey, it successfully launched the Ground Stability Report, a new product which provides the public with comprehensive information on natural subsidence as well as coal mining issues relevant to properties.

Business plan objective: nuclear security and safety

2.385 The Department works to ensure nuclear security and safety, through supervisory and regulatory activities to protect the public and international safety. Substantial technical assistance is also given to Former Soviet Union and East European countries in addressing nuclear legacy issues, to reduce the global threat posed by the potential spread of weapons and materials of mass destruction.

Plans for 2006-07

Contribute to meeting the UK's international non-proliferation obligations while minimising the impact on UK organisations (including business)

Progress in 2006-07

Non-proliferation

2.386 The UK has continued to cooperate fully with the International Atomic Energy Agency (IAEA) and European Commission on the application of nuclear safeguards to the UK, and with the Organisation for the Prohibition of Chemical Weapons (OPCW) on the application of the Chemicals Weapons Convention to the UK Chemical Industry. Reporting requirements to all organisations have been met in full, and on time. The Department has played a major part in the development of new approaches to inspections in all organisations, and industry and academia have been kept informed.

2.387 The nuclear safeguards function was moved from the Department to the Health and Safety Executive as of 1 April 2007.



Building 5 (centre) interim SNF store at Atomflot, Murmansk, NW Russia

Deliver the UK Nuclear Component of the G8 Global Partnership Against the Spread of Weapons and Materials of Mass Destruction

2.388 The Department manages, on behalf of the Government, a £32.2 million annual programme to address nuclear cold war legacy issues in the Former Soviet Union (FSU). The programme is part of a G8 initiative to reduce the global threat posed by the spread of weapons and materials of mass destruction, and the Prime Minister has committed up to £500 million to this work over the period 2003-13.

2.389 The UK has put in place a more effective and efficient framework to ensure the Government can respond to new proliferation threats that may arise in the future. As part of this, a Ministerial Board has been established, responsible for providing strategic direction to ensure all projects continue to meet the Government's WMD counter-proliferation objectives.

Plans for 2006-07

Progress in 2006-07

2.390 As well as ensuring our own programme frameworks are robust and capable of dealing effectively with new challenges, we have provided assistance to other donor countries to help them progress projects associated with submarine dismantling, scientist redirection and chemical weapon destruction. For example, Norway has asked the UK to lead our joint project to dismantle a further nuclear submarine, and will provide some £2 million for the work; Royal Navy salvage experts have provided technical assistance to enable Norway to move a 40-year-old Russian nuclear submarine safely to a shipyard, where it will be dismantled, with funds from the UK and Norway. The confidence that other donors place in the UK to deliver projects and provide advice demonstrates clearly the professional competence of the UK in dealing with these complex and high risk issues.

2.391 Among the successes in delivering the UK programme is completion to time and to cost of the £21 million nuclear facility at Atomflot, Murmansk. This facility will secure some three tonnes of highly enriched nuclear fuel for up to fifty years, until a technical solution is available for its long-term disposal or reprocessing. An evaluation of the UK's Global Partnership programme by Chatham House (Royal Institute of International Affairs) found that the UK programme was well focused and making a significant impact on addressing the priorities identified by leaders at the G8 Kananaskis summit in 2002.

2.392 Further details of the programme can be found in the latest Annual Report.¹³⁹

Continue to improve the UK's framework for the effective and proportionate regulation of nuclear safety and security

Office for Civil Nuclear Security

2.393 Security in the civil nuclear industry is regulated by the Office for Civil Nuclear Security (OCNS), whose activity is governed by the Nuclear Industries Security Regulations 2003 (NISR 03). The Regulations were amended in November 2006, in order to close a gap that had been identified with regard to the duty to protect sensitive nuclear information. Work is also currently underway to complete the three-year review of the general effectiveness of the Regulations. The Director of OCNS publishes an annual report on the state of security in the civil nuclear industry and the effectiveness of regulation. Unauthorised access onto a licensed nuclear site was made a criminal offence in the Terrorism Act 2006. The 2006 report can be found on the Department's website.¹⁴⁰

2.394 The OCNS was transferred to the Health and Safety Executive as of 1 April 2007 and is no longer a DTI body.

Civil Nuclear Constabulary

2.395 Where required, an armed response at nuclear sites is provided by the Civil Nuclear Constabulary (CNC). Deployment of CNC Support Units to nuclear generating sites has been successfully completed. Exercises to test nuclear sites' emergency preparedness occur frequently, and usually involve local emergency services and local Government bodies.

Figure 2.25 Expenditure on managing Government assets and liabilities (£ million)

	2003-04 Outturn	2004-05 Outturn	2005-06 Outturn	2006-07 Outturn	2007-08 Plans
Total Resource DEL	446.9	728.6	1,213.7	1,568.3	1,710.0
<i>of which:</i>					
Nuclear Decommissioning Authority	0	0	796.1	1,096.0	1,061.5
UKAEA	330.0	347.4	4.7	10.3	15.0
British Energy – Historic Liabilities	4.9	185.2	189.0	196.4	200.0
Coal Authority	39.7	37.9	37.0	21.9	25.5
Other Coal	11.9	55.9	64.6	150.4	7.1
ECGD	0.0	0.0	5.0	5.0	0.0
Post Office	67.7	73.9	21.8	82.0	396.0
Other	-7.3	28.2	95.4	6.2	4.9
Total Resource AME	956.2	-830.4	-263.3	-64.5	-696.9
<i>of which:</i>					
Health claims and associated expenditure – non cash	775.5	-315.5	-176.8	83.2	32.8
<i>Of which: increase/decrease in provision</i>	864.4	-239.3	-138.1	87.3	13.5
<i>Cash expenditure (excluded from resource cost)</i>	926.1	873.2	1,036.7	823.5	744.3
Coal Privatisation – indemnities – non cash	34.4	-0.6	4.2	-3.7	-0.4
<i>Cash expenditure (excluded from resource cost)</i>	11.2	14.0	2.0	1.0	9.5
Coal privatisation – Avenue Cokeworks – non cash	0	8.4	-2.7	-0.4	-0.3
<i>Cash expenditure (excluded from resource cost)</i>	0	0	1.1	1.0	8.0
BNFL/Magnox decommissioning – non cash	202.3	169.8	-93.7	0	-429.2
<i>Cash expenditure (excluded from resource cost)</i>	0	0	0	0.0	0
Managing Nuclear Liabilities	-55.6	-689.3	5.9	-121.4	-384.4
<i>of which:</i>					
UKAEA Decommissioning – non cash	-179.4	-584.2	17.4	-7.0	-213.0
<i>Cash expenditure (excluded from resource cost)</i>	0	0	1.3	0	0
British Energy – non cash	123.8	-105.1	-11.5	-114.4	-171.4
Post Office restructuring	0	0	0	0	68.0
Other	-0.4	-3.1	-0.1	-22.2	16.8

Notes:

- Under the Energy Act 2004, the NDA have taken on responsibility for expenditure on the Civil Nuclear Legacy, and from 2005-06 these liabilities will feature on the NDA Balance sheet
- Figures for Post Office include expenditure between 2003-04 and 2005-06 on Post Office Ltd's Urban Regeneration Programme
- See page 102 for spend on nuclear security and safety.
- The total spend given here for each business plan objective corresponds with the total of the Resource DEL, Resource AME and Capital DEL spend given in tables 2 and 3 in section 6.3.
- The figures shown as 2007-08 plans reflect the original DTI budgets. These will be allocated to its successor departments created in June 2007 (BERR and DIUS, see section 1.1) in due course.

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The background of the entire page is a photograph of a modern building with a glass facade. In the foreground, there is a large, stylized sculpture of the letter 'Q' in a light blue color. The building has a grid-like structure of windows and is reflected in the water in the foreground. The overall tone is blue and professional.

CHAPTER 3

The Department

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Section 3.1

Ministers and governance

3.1 This section lists the Department's Ministers who served during the reporting year and until 27 June 2007 when the Department was replaced (see section 1.1). It also details the Department's governance arrangements.

Ministers

3.2 The Rt.Hon. Alistair Darling MP succeeded the Rt.Hon. Alan Johnson MP as Secretary of State for the Department in May 2006. At this time a number of other Ministerial changes took place, and there were further changes in November 2006 when Lord Sainsbury left the Government. From November 2006 to June 2007 the Ministerial team was as follows.

Secretary of State for Trade and Industry	The Rt Hon Alistair Darling, MP (from 5 May 2006)
Minister of State for Industry and the Regions	The Rt Hon Margaret Hodge MBE, MP (from 5 May 2006)
Minister of State for Trade, Investment and Foreign Affairs	The Rt Hon Ian McCartney, MP (from 5 May 2006)
Minister of State for Science and Innovation	Malcolm Wicks, MP (from 13 November 2006)
Parliamentary Under-Secretary of State for Employment Relations and Postal Services Minister for London	Jim Fitzpatrick, MP (from 5 May 2006)
Parliamentary Under-Secretary of State for Energy	Lord Truscott (from 13 November 2006)

3.3 In addition, the following also held Ministerial responsibility during 2006-07:

Secretary of State for Trade and Industry (to 4 May 2006)	The Rt Hon Alan Johnson, MP
Minister for Industry and the Regions (to 4 May 2006)	The Rt Hon Alun Michael, MP
Minister for Trade, Investment and Foreign Affairs (to 4 May 2006)	Ian Pearson, MP
Parliamentary Under-Secretary of State for Competitiveness (to 4 May 2006)	Barry Gardiner, MP
Parliamentary Under-Secretary of State for Women and Equality (to 4 May 2006)	Meg Munn, MP
Parliamentary Under-Secretary of State for Science and Innovation (to 9 November 2006)	Lord Sainsbury of Turville
Parliamentary Under-Secretary of State for Employment Relations and Consumers Affairs (to 4 May 2006)	Gerry Sutcliffe, MP

3.4 The remuneration of the Ministers is detailed in the Remuneration Report (see section 3.7).

Permanent Secretary

3.5 Sir Brian Bender has been the Permanent Secretary of the Department since October 2005. He chairs the Management Board and is in charge of the day-to-day running of the Department. The Civil Service Management Code governs the Permanent Secretary's appointment, including length of time of the appointment.

Governance structure

3.6 The Department's corporate governance structure comprises a Management Board and three sub-Committees: the Audit and Risk Committee, the Executive Committee and the Operating Committee. The following diagram shows the governance structure in place at the Department:



Management Board

3.7 The Management Board's role is to provide corporate strategic leadership to the Department. This involves in particular:

- working with Ministers to set the Department's strategy and allocate resources;
- agreeing business plans, and monitoring Departmental performance;
- assessing risks/issues which could undermine the Department's strategy/business plan;
- assessing Departmental capability and plans for the future; and
- setting standards, values and controls.

3.8 The Board is supported by the three Departmental Committees shown above.

3.9 The Members of the Management Board as at 31 March 2007 were:

Permanent Secretary (Chair)	Sir Brian Bender
Director General, Fair Markets Group	John Alty
Chief Executive, UK Trade & Investment	Andrew Cahn
Director General, Finance & Strategy (from 5 June 2006)	Mark Clarke
Chief Operating Officer (from 18 April 2006)	Hilary Douglas
Director General, Enterprise and Business Group	Mark Gibson
Solicitor and Director General, Legal Services	Anthony Inglese
Director General, Energy Group	William Rickett
Director General, Science and Innovation	Sir Keith O’Nions
Chief Economic Adviser and Director General, Economics	Vicky Pryce
Independent members:	
Crawford Gillies	(Senior Adviser to Bain & Company Inc, and former Chairman of the CBI London Region and Chairman of the London Business Board)
Fields Wicker-Miurin	(Co-Founder and Partner of Leaders’ Quest; Non-Executive Director of Savills plc, the Carnegie Group, the Royal London Group, and CDC Group plc; Governor, King’s College London)
Dr Brian Woods-Scawen	(Director of West Bromwich Building Society and a member of the Committee on Standards in Public Life; formerly at PricewaterhouseCoopers: partner, Chairman of the Supervisory Board, member of the Global Board and Executive Chairman of the Midlands Region)
Also attending:	
Director, Strategy and Communications	Matthew Hilton
In addition, the following were Board members during 2006-07:	
Director General, Services Group (to 17 April 2006)	David Evans
Director General, Innovation Group (to 16 April 2006)	David Hughes

Committees

3.10 The **Executive Committee** makes decisions on strategic, Department-wide internal management issues. This includes:

- broad decisions on resource allocation;
- monitoring organisation capability;
- internal management issues that require explicit endorsement by Directors-General; and
- SCS performance and development, and pay of senior civil service (Committee convenes as SCS Performance and Development Committee).

3.11 In order to discharge these responsibilities the Committee met monthly in 2006-07 except August.

3.12 The members of the Executive Committee as at 31 March 2007 were:

Permanent Secretary (Chair)	Sir Brian Bender
Director General, Fair Markets Group	John Alty
Chief Executive, UK Trade & Investment	Andrew Cahn
Director General, Finance & Strategy (from 5 June 2006)	Mark Clarke
Chief Operating Officer (from 18 April 2006)	Hilary Douglas
Director General, Enterprise and Business Group	Mark Gibson
Director, Strategy and Communications	Matthew Hilton ¹
Solicitor and Director General, Legal Services (Deputy Chair)	Anthony Inglese
Director General, Energy Group	William Rickett
Director General, Science and Innovation	Sir Keith O'Nions
Chief Economic Adviser and Director General, Economics	Vicky Pryce
Also attending:	
Chief Executive of Shareholder Executive (from 20 November 2006)	Martin Bryant ²
In addition, the following were also Committee members during 2006-07:	
Director General, Services Group (to 17 April 2006)	David Evans
Director General, Innovation Group (to 16 April 2006)	David Hughes
Also attended during 2006-07:	
Chief Executive of Shareholder Executive (to 31 August 2006)	Richard Gillingwater ³

3.13 The purpose of the **Operating Committee** (previously named "Resources Committee") is to decide on the Department's processes and resources relating to people, planning, financial management, communication, project management, IT and property:

- looking at the Department's internal business planning enabler objectives (see section 3.4 below for performance during 2006-07), and to
- co-ordinate the implementation of change and efficiency initiatives in respect of these "enabler functions".

3.14 In order to discharge these responsibilities the Committee met monthly (except August) during the financial year 2006-07.

¹ Does not attend when convened as SCS Performance and Development Committee

² Attends when convened as SCS Performance and Development Committee

³ Attends when convened as SCS Performance and Development Committee

3.15 The members of the Operating Committee as of 31 March 2007 and during the year were:

Solicitor and Director General, Legal Services (Chair)	Anthony Inglese
Director General, Finance & Strategy (from 5 June 2006)	Mark Clarke
Group Director, Transdepartmental Science and Technology	Jeremy Clayton
Director, Corporate Law and Governance	Geoff Dart
Chief Operating Officer (from 18 April 2006)	Hilary Douglas
Chief Executive, Insolvency Service	Desmond Flynn
Director, Legal Services A (from 22 January 2007)	Hugh Giles
Deputy Chief Executive, UK Trade & Investment	Susan Haird
Head of Business Relations 2	David Hendon
Director, Strategy and Communications	Matthew Hilton
Director, Operations Directorate	Ian Jones
Director, Information and Workplace Services (from 7 August 2006)	Peter Lowe
Director, Human Resources	Shirley Pointer
Head of Energy Technologies Unit	Peter Waller
Deputy Chief Economic Advisor	Ken Warwick
Independent members:	
Claire Ighodaro	(National Council Member of the Learning and Skills Council, non-executive director of the Banking Code Standards Board, independent board member of the UK Trade & Investment Executive Board, and Chairman of the Open University Audit Committee, the BCSB Audit Committee and UKTI Audit Committee)
Jean Irvine OBE	(Independent consultant and non-executive director, formerly a Director of the Post Office)
David Weymouth	(Formerly Corporate Responsibility Director, Group Chief Information Officer for the Barclays Group)
In addition, the following were also Committee members during 2006-07:	
Director General, Services Group (to 17 April 2006)	David Evans
Director, Finance Resource Management (to 4 June 2006)	Adam Jackson
Director, Information and Workplace Services (to 6 August 2006)	Yvonne Gallagher

3.16 The Audit and Risk Committee's purpose is to support the Permanent Secretary in his role as Accounting Officer for the Department by promoting confidence in the Department's governance, overseeing the work of the internal and external auditors and reviewing the annual financial statements before submission to the Management Board. In order to discharge these responsibilities the Committee met five times in 2006-07.

3.17 The full terms of reference of the Audit Committee can be found at www.dti.gov.uk/about/strategy-objectives/how-we-work/senior-committees/page18199.html

3.18 Membership of the Audit and Risk Committee as at 31 March 2007 was:

Independent Chair	Crawford Gillies
Director General, Business Group	Mark Gibson
Solicitor and Director General, Legal Services	Anthony Inglese
Head of Energy Market Unit	Claire Durkin
Independent members:	
Barry Rourke	(Director at Surrey and Borders Partnership NHS Trust and formerly partner at PricewaterhouseCoopers)
Julia Unwin OBE (to 31 December 2006)	(Deputy Chair of the Food Standards Agency, Chair of the Committee of Reference overseeing the group of ethical investment funds provided by Friends Provident and F & C)
Dr Brian Woods-Scawen	(see above)

3.19 The Permanent Secretary (as Accounting Officer for the Department), Director General Finance & Strategy, the Director of Internal Audit and a Director of the National Audit Office also normally attend meetings of the Committee.

Appointment and remuneration

3.20 The Permanent Secretary, as well as the members of all these Boards and Committees (with the following exceptions) are civil servants, appointed in accordance with the Civil Service Management Code. Their remuneration is determined in accordance with Cabinet Office guidelines, which take into account the recommendations of the Senior Salaries Review Body. The exceptions are: the Independent Board Members (IBMs), the Secretary of State and Ministers. The IBMs are appointed for an initial term of two or three years with the possibility of a second similar term. Remuneration is based on a flat-rate annual honorarium plus reimbursement of reasonable expenses. The remuneration report in section 3.7 gives details of the remuneration of the Secretary of State, Ministers and senior management, and fees paid to Independent Board Members.

3.21 Those members of the Department's Boards and Committees who are also civil servants are, by the terms of that employment, precluded from holding any company directorships or other significant interests that

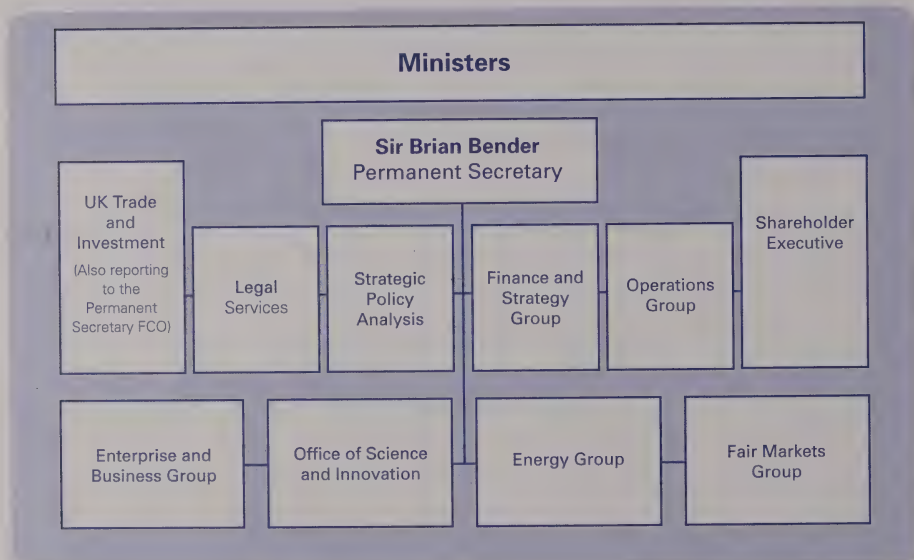
may conflict with their management responsibilities. The IBMs are required to declare any personal or business interests which may, or may be perceived to, influence their judgement and are asked on a regular basis to keep this updated.

3.22 The Department is committed to appointments in our delivery partners being made on merit. Public appointments are made by Ministers to the boards of the Department's non-departmental public bodies. Appointments include the positions of Chair, Deputy Chair and Board members. Ministerial appointments to NDPBs and public corporations are made in accordance with the Code of Practice of the Commissioner for Public Appointments more commonly known as the OCPA Code. The role of the Commissioner is to regulate, monitor, report and advise on the way in which Ministers make appointments to the Boards of public bodies. A separate report on public bodies and public appointments will be made available on the Department's website around the time of the publication of this Report.¹⁴¹

Section 3.2

Structure and organisation

3.23 This section gives an overview of the Department's structure during the reporting year and summarises the work of each unit. Following the changes implemented in June 2007 (see section 1.1), large parts of this structure have transferred to the Department for Business, Enterprise and Regulatory Reform, with the Office of Science and Innovation transferring to the Department for Innovation, Universities and Skills.



3.24 Enterprise and Business Group comprises Business Relations (BR), the Small Business Service (SBS) and Regions. The Director General is Mark Gibson. Business Relations builds partnerships with business through face-to-face contact and sector analysis. Regions aims to improve the economic performance of each English region and narrow the gap in growth rates, working in partnership with England's Regional Development Agencies and other Government Departments; and the Small Business Service is dedicated to supporting small business and enterprise.

3.25 Fair Markets Group shapes a framework for free and fair markets nationally and internationally, to help business, consumers and employees meet the challenges of globalisation. Headed up by its Director General John Alty, it extends competitive markets by developing markets both in Europe and throughout the world; reducing the regulatory burden on business; and placing empowered and protected consumers at the heart of a world-class competition regime. It maintains an adaptable labour market, delivering a reduction in legal complexity while

protecting vulnerable workers and promoting diversity. It promotes and delivers an effective framework for corporate and insolvency activity, giving confidence to investors and business.

3.26 The Office of Science and Innovation (OSI) was headed by Sir David King, who is also the Government’s Chief Scientific Adviser. OSI comprises the Science and Innovation Group (S&IG), headed by Sir Keith O’Nions (who reports directly to the Permanent Secretary), and the Transdepartmental Science and Technology Group (TDST), which supports Sir David in his role as GCSA. S&IG has the dual purpose of developing further the excellence of the UK’s research base; and promoting technological and other business innovation. S&IG’s main delivery partners are the Research Councils, the Technology Strategy Board , the UK Intellectual Property Office, British National Space Centre, the National Physical Laboratory and the National Weights & Measures Laboratory. TDST aims to ensure that the Government as a whole manages and uses science effectively to improve policy and delivery, as well as co-ordinating the UK’s engagement with international science issues.

3.27 Energy Group’s Director General is Willy Rickett. The Group handles a range of energy-related matters, from licensing of oil and gas exploration and production to the supply of gas and electricity to consumers. Its overall objective is to use competitive energy markets to achieve the efficient use and reliable supply of clean, safe and competitively-priced energy. It also manages Departmental historic liabilities; and safety and security in the civil nuclear industry.

3.28 UK Trade & Investment (UKTI) brings together the work of the Foreign & Commonwealth Office and the Department in supporting companies in the UK doing business internationally, and overseas enterprises seeking to locate in the UK (see the FCO’s Departmental Report at www.fco.gov.uk or UKTI’s own annual report at www.uktradeinvest.gov.uk). UKTI draws staff and associated administration funding from both parent departments and has its own stream of programme funding, voted directly by Parliament. The Chief Executive is Andrew Cahn.

3.29 The Government is owner of or shareholder in, a large and diverse portfolio of businesses, including for instance Royal Mail. The **Shareholder Executive** aims to ensure that Government shareholdings deliver sustained, positive returns and to act as an effective and intelligent shareholder. During the reporting year it was headed by Martin Bryant, Chief Executive. He was succeeded by Stephen Lovegrove as Acting Chief Executive from June 2007.

3.30 The Strategic Policy Analysis Unit is headed by Vicky Pryce, the Chief Economic Advisor and Director General. The Unit undertakes analytical work in support of the Department’s policy and strategy and gives a professional lead to the work of economists, statisticians and operational researchers across the Department. The unit is responsible for developing the Department’s evidence base and its analysis of globalisation and the UK productivity and competitiveness agenda.

3.31 The Director General of the **Finance and Strategy Group** is Mark Clarke. The Group is responsible for ensuring that the Department’s finances are managed and controlled effectively in a way which supports the delivery of the Department’s objectives. It delivers strategic, business and financial planning; performance

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management and reporting; accounting operations; and decision support and financial analysis. The Group also champions value for money, performance improvement and cost/income management across the Department.

3.32 Operations Group is led by Hilary Douglas, the Chief Operating Officer. The Group ensures the Department has the capability to deliver on our objectives by providing infrastructure, communication and support services such as personnel, accommodation, IT and operations and using resources efficiently to meet savings targets.

3.33 Legal Services Group ensures that the Department and its executive agencies receive the highest quality legal advice. The Group is headed by Anthony Inglese, the Solicitor and Director General.

Changes during 2006-07

3.34 During 2006-07 the following changes took place in the structure and organisation of the Department. See also Note 40 to the accounts in section 5.6 for the financial implications of some of the changes listed here.

- Following the Ministerial reorganisation in May 2006, the Women and Equality Unit has transferred to the Department of Communities and Local Government (DCLG) in a machinery-of-government change. As part of the transfer, sponsorship responsibilities for the Equal Opportunities Commission and the Women's National Commission, with their associated budgets, have also transferred to the DCLG.
- During 2006-07 Ministers agreed to major restructuring of the work of the Business Relations teams and the Small Business Service, with a view to becoming a more streamlined, policy-making Department. As part of this restructuring, SBS has ceased to be an executive agency, and has become part of the core Department from 1 April 2007.
- As of 1 April 2006 Companies Investigation Branch of the Department transferred to The Insolvency Service.
- In October 2006, the safety function of the Engineering Inspectorate transferred to the Health and Safety Executive.
- As of 1 April 2007, the nuclear safeguards function within Energy Group transferred to the Health and Safety Executive.
- In June 2006, the Social Enterprise Unit in the SBS transferred to the Cabinet Office.

Section 3.3

Delivery partners – agencies and NDPBs

3.35 The Department delivers its wide range of products and services to very diverse groups by working with a network of organisations (or parts of organisations) and delivery partners.

3.36 This section gives an overview of all bodies sponsored by the Department during the reporting year. The “Departmental family” consists of a number of executive agencies and non-departmental public bodies. They employed around 21,000 people and spent about 70% (£4.7 billion) collectively of the Department’s total budget in 2006-07. Around 100 people (full-time equivalent) within the Department have been involved in managing its relationships with these delivery partners.

3.37 Responsibility for a number of delivery partners (including the Research Councils) is currently transferring to the new Department for Innovation, Universities and Skills, while most of the bodies described below are becoming delivery partners of the new Department for Business, Enterprise and Regulatory Reform.

Executive agencies

3.38 Executive agencies are delivery bodies closely connected with the sponsoring Department. Although there is no typical agency model, common features of agencies usually include a certain level of financial and personnel flexibility to get the job done and operating performance targets that are agreed with the parent Department and Minister.

3.39 During 2006-07, the Department had the following agencies:

Executive Agencies		page
Small Business Service (until 1 April 2007)	www.sbs.gov.uk	52
Companies House (a Trading Fund)	www.companieshouse.gov.uk	85
Patent Office (changed its name to “UK Intellectual Property Office” in April 2007) (a Trading Fund)	www.ipo.gov.uk	42
Insolvency Service	www.insolvency.gov.uk	86
National Weights and Measures Laboratory	www.nwml.gov.uk	41

3.40 With effect from 1 April 2007, the Small Business Service was moved into the core Department to reflect the fact that it is mostly a policy unit rather than a delivery unit. Business-facing delivery services are provided by the Regional Development Agencies and Business Link.

Non-departmental public bodies

3.41 Non-departmental public bodies ("NDPBs") are delivery bodies that operate to a greater or lesser extent at arm's length from Ministers and departments. In the reporting year the Department had around 70, including the Regional Development Agencies, the Research Councils and the Low Pay Commission. Advisory NDPBs differ from other NDPBs in that usually they are set up as ad hoc organisations; any staff and resources they require are provided directly by the Department.

3.42 During 2006-07, the Department had the following NDPBs:

Executive NDPBs

Advisory Conciliation & Arbitration Service (Acas) www.acas.org.uk
British Hallmarking Council www.britishhallmarkingcouncil.gov.uk
Civil Nuclear Police Authority www.cnpa.police.uk
Coal Authority www.coal.gov.uk
Consumer Council for Postal Services (Postwatch) www.postwatch.co.uk
Competition Commission www.competition-commission.org.uk
Competition Service www.catribunal.org.uk
Design Council www.designcouncil.org.uk
Gas and Electricity Consumer Council (Energy Watch) www.energywatch.org.uk
Hearing Aid Council www.thehearingaidcouncil.org.uk
National Consumer Council www.ncc.org.uk
Nuclear Decommissioning Authority www.nda.gov.uk
Simpler Trade Procedures Board (SITPRO) www.sitpro.org.uk
United Kingdom Atomic Energy Authority (UKAEA) www.ukaea.org.uk

Regional Development Agencies:

Advantage West Midlands www.advantagewm.co.uk
East Midlands Regional Development Agency www.emda.org.uk
East of England Development Agency www.eeda.org.uk
North West Development Agency www.nwda.co.uk
One North East www.onenortheast.co.uk
South East England Development Agency www.seeda.co.uk
South West of England Development Agency www.southwestrda.org.uk
Yorkshire Forward www.yorkshire-forward.com

Research Councils:

Arts & Humanities Research Council (AHRC) www.ahrc.ac.uk
Biotechnology & Biological Sciences Research Council (BBSRC) www.bbsrc.ac.uk
Council for Central Laboratory Research Council (CCLRC) and Particle Physics & Astronomy Research Council (PPARC): merged into the Science & Technology Facilities Council on 1 April 2007 www.stfc.ac.uk
Economic & Social Research Council (ESRC) www.esrc.ac.uk
Engineering & Physical Sciences Research Council (EPSRC) www.epsrc.ac.uk
Medical Research Council (MRC) www.mrc.ac.uk
Natural Environment Research Council (NERC) www.nerc.ac.uk

3.43 Last year's DTI Departmental Report contained detailed information on the expenditure and the long-term projects of the Research Councils. This information is no longer presented in this Report, but will be made available on the Department's website at or shortly after publication of this Report, see www.dti.gov.uk/science/science-funding/budget/page28923.html.

Advisory NDPBs

Advisory Committee on Carbon Abatement Technologies (ACCAT) www.dti.gov.uk/energy/sources/sustainable/carbon-abatement-tech/page19502.html
Council for Science & Technology www.cst.gov.uk
Ethnic Minority Business Forum www.ethnicbusiness.org
Fuel Poverty Advisory Group www.dti.gov.uk/energy/fuel-poverty
Industrial Development Advisory Board www.berr.gov.uk/regional/regional-development/indus-dev-advis-board/page19309.html
Low Pay Commission www.lowpay.gov.uk
Measurement Advisory Committee www.berr.gov.uk/innovation/nms/mac/page32304.html
Regional Industrial Development Boards www.berr.gov.uk
Renewables Advisory Board www.berr.gov.uk/energy/sources/renewables/policy/renewables-advisory-board/page16101.html
Small Business Council www.smallbusinesscouncil.org
Small Business Investment Taskforce www.sbs.gov.uk/sbit
Sustainable Energy Policy Advisory Board www.berr.gov.uk/energy/policy-strategy/sepn/sepab/page21437.html
Technology Strategy Board www.berr.gov.uk/technologystrategy
Union Modernisation Fund Supervisory Board www.berr.gov.uk/employment/trade-union-rights/modernisation/supervisory-board/page20780.html
UK Chemical Weapons Convention National Authority Advisory Committee www.berr.gov.uk/europeandtrade/non-proliferation/chemical-biological/uk-cwc/naac/page26429.html

Tribunal NDPBs

Central Arbitration Committee	www.cac.gov.uk
Competition Appeal Tribunal	www.catribunal.org.uk
Copyright Tribunal	www.ipo.gov.uk/ctribunal.htm
Insolvency Practitioners Tribunal	www.insolvency.gov.uk
Persons Hearing Consumer Credit Licensing Appeals	www.dti.gov.uk
Persons Hearing Estate Agents Appeals	www.dti.gov.uk

Other bodies

3.44 Finally, the Department is associated with a number of other bodies.

Public corporations

British Energy Group plc	www.british-energy.com
British Nuclear Fuels plc (BNFL)	www.bnfl.com
British Shipbuilders	
Ofcom	www.ofcom.org.uk
Royal Mail Holdings plc	www.royalmailgroup.com

Central Government organisation

Nuclear Liabilities Fund (NLF – a company limited by shares)	www.ngdf.info
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Non-Ministerial Departments

Export Credit Guarantee Department (ECGD)	www.ecgd.gov.uk
Office of Fair Trading	www.oft.gov.uk
Ofgem	www.ofgem.gov.uk
Postcomm	www.psc.gov.uk

Ad-hoc advisory groups

Advisory Panel on Management & Leadership
Aerospace Innovation & Growth Leadership Council
Capital for Enterprise Advisory Group
Electronics Leadership Council
Employment Law Simplification Review Practitioners' Panel
Environmental Innovations Advisory Group
Manufacturing Forum
Motorsport Development UK (MDUK) Advisory Board
Pilot – The Right Course for Oil and Gas Success
UK Energy Research Partnership (UKERP)
Vulnerable Workers Pilot Practitioners' Panel
Women's Enterprise Task Force

Other bodies

Citizens Advice www.citizensadvice.org.uk

Financial Reporting Council (FRC) www.frc.org.uk

3.45 Note that the following units are part of the core Department rather than the wider Departmental family: the Office of Science and Innovation, UK Trade & Investment, the British National Space Centre, the Export Control Organisation and the Shareholder Executive.

Changes during 2006-07

3.46 With effect from May 2006, the sponsoring role for the Equal Opportunities Commission (an executive NDPB) and the Women's National Commission (an advisory NDPB) moved to the Department of Communities and Local Government. This follows the transfer of the Women and Equality Unit (see page 124 above).

3.47 On 1 April 2006 the functions of the Employment Tribunals Service transferred to the Ministry of Justice to become part of the new Tribunals Service.

3.48 Other bodies which were wound up during 2006-07 were:

Advisory NDPBs

Measurement Advisory Committee	December 2006
Sustainable Energy Policy Advisory Board	March 2007
Ethnic Minority Business Forum	March 2007
Small Business Council	March 2007
Small Business Investment Taskforce	March 2007

Ad-hoc advisory groups

Age Advisory Group	January 2007
Construction Act Sounding Board	February 2007

3.49 In addition the Women in SET Implementation Group has been reclassified as an Expert Committee with effect from May 2006.

3.50 The Office for Civil Nuclear Security transferred to the Health and Safety Executive as of 1 April 2007.

Performance reporting on agencies and NDPBs

3.51 The performance report in chapter 2 also covers the contribution of the executive agencies. All agencies and most NDPBs (other than Advisory and Tribunal NDPBs) also publish their own annual report and accounts, which provide full information on targets and performance of the organisation in question, as well as financial information. These can be obtained from their websites, as indicated above, or The Stationery Office.

Entities consolidated and not consolidated

3.52 The audited Resource Accounts 2006-07 in chapter 5 present the consolidated results for the financial year 2006-07 of the following entities:

- the DTI, including DTI elements of administration expenditure for UK Trade & Investment. The administration costs of UKTI are shared with the Foreign and Commonwealth Office. UKTI's programme expenditure is presented in its own resource accounts;
- the following executive agencies: The Insolvency Service, National Weights and Measures Laboratory, Small Business Service; and
- the Advisory, Conciliation and Arbitration Service (Acas), a Crown Executive NDPB.

This means that the spending amounts in the Accounts represent the combined expenditure by these bodies.

3.53 With the exception of Acas, the financial results of NDPBs are not consolidated in these Accounts. However, the Accounts do show the money the Department has provided to the various NDPBs during 2006-07 (so-called "grants-in-aid", see Note 11 to the Accounts – section 5.6). As mentioned above, executive NDPBs publish separate annual reports and accounts which provide full details of financial activity during the year. Advisory NDPBs and Tribunal NDPBs do not publish formal annual reports and accounts, but information on their work can be found on their websites.

3.54 In parallel to the audited Resource Accounts, this Annual Report and Accounts also contains (unaudited) expenditure information on the whole of the Departmental family (including NDPBs) in chapter 6. Chapter 4 explains the difference between the two sets of financial information in more detail.

Relationship between the core Department and delivery partners

3.55 Each NDPB is overseen by a sponsor team in the Department which agrees the NDPB's remit and monitors performance. The sponsor team works with the NDPB, providing both support for its high level aims, as well as challenge to ensure adherence to rules of regularity and propriety and for purposes of budgetary control.

3.56 The next section (section 3.4 "Professional support, capability and infrastructure") discusses the Capability Review that was carried out in 2006. With regard to the relationship between the Department and its delivery partners, the Capability Review recognised that there were significant areas of strengths and also highlighted areas which needed to improve if we were to work together as effectively as possible ensuring a consistent level of senior level engagement.

Section 3.4

Professional support, infrastructure, capability

3.57 The Department's 2006 Business Plan² set out what we wanted to achieve during 2006-07 for the strategic objectives on science, business, markets and energy, and chapter 2 reports the progress made. The Business Plan also outlined work to build the Department's capability to pursue these objectives. It did so by describing the Department's plans for 2006-07 for each of five "enabler objectives":

- setting and delivering priorities;
- corporate services;
- corporate communications;
- legal services; and
- delivering efficiency targets.

3.58 This section contains the 2006-07 report on the Department's enabler objectives. It also explains how the "Capability Review" that was carried out in 2006 fits in with the Department's work on building its capability.

3.59 From 28 June 2007, the support services delivering the enabler objectives form the foundation of the capability of the new Department for Business, Enterprise and Regulatory Reform (see section 1.1).

The Capability Review

3.60 The Departmental Capability Reviews are an initiative launched by the Cabinet Secretary, Sir Gus O'Donnell to improve the capability of the Civil Service to meet today's delivery challenges and be ready for tomorrow's.¹⁴² The reviews are carried out by a team of Board-level external reviewers from the public, private and voluntary sectors supported by the Prime Minister's Delivery Unit.

3.61 The Department was in the second tranche of Departments to be reviewed, with the Review report published on 13 December 2006 alongside a response to the review from the Department's Management Board, and a more detailed implementation plan.¹⁴³

3.62 The Review report recognised the improvements made in the Department over the last five years beginning with the Patricia Hewitt-led review of the Department in 2001 through the introduction of a comprehensive strategy (see section 1.2) and more effective business plans in 2003 to more recent innovations such as the introduction of the Project Pool (see page 132). It highlights Departmental strengths in delivery, with the Department coming out as one of the top departments in Whitehall in this area, as well as the Department's impressive

record of analysis and use of evidence and its success in delivering efficiency and headcount targets ahead of schedule.

3.63 In the light of the findings of the Review the Management Board committed to action in the following areas:

- **Clarity and standards:** Ensuring that the Department's vision, role and purpose drives the performance of every unit and individual in the organisation.
- **Leadership:** Building on the Department's leadership development work to address issues raised in staff surveys, to strengthen the corporate approach to the management of change, and to recognise the contribution of leaders from the wider Departmental "family" of delivery partners.
- **Working through the delivery chain:** Achieving more strategic interaction between the Department and its executive agencies and NDPBs, with clearer business models and an emphasis on sharing common purpose, best practice and recognising success.

3.64 Work is continuing in these areas and the Management Board will periodically discuss actions and evidence of progress with the Cabinet Secretary and the Prime Minister's Delivery Unit. A public update report will be available around twelve months after publication.

Business plan objective: setting and delivering priorities

Plans for 2006-07	Progress in 2006-07
Leading and co-ordinating the Department's evidence for the Comprehensive Spending Review (CSR 2007)	<p>Comprehensive Spending Review</p> <p>3.65 The Department has undertaken a series of rigorous exercises to ensure that its bid for resources in CSR 07 is soundly based, including examining all areas for potential value-for-money savings, and to see whether resources currently used could be reduced or refocused to maximise their impact on achieving Departmental and Government objectives. This work will inform the negotiation and implementation of the Department's CSR 07 settlement as it will apply to its successor Departments (BERR and DIUS, see section 1.1)</p> <p>3.66 In March 2007, the Department's science budget was settled for the CSR at 2.7% growth annually in real terms to 2010-11. This level of growth is consistent with the 10 Year Science and Innovation Framework 2004. The Department's non-science budget was settled recently, at the end of June.</p>
Distributing resources to areas that maximise the delivery of DTI objectives	<p>Prioritisation</p> <p>3.67 The Department has undertaken further prioritisation of activities to enable it to operate within its budget. In particular, through making more efficient use of the Department's accommodation, asserting downward pressure on ICT costs and reviewing particular areas of the Department to ensure that staff numbers are consistent with the organisational strategy. The Department has also continued to build on the success of the Project Pool, which allows staff to be quickly and flexibly deployed to changing priorities.</p>

Plans for 2006-07

Progress in 2006-07

3.68 As part of the Comprehensive Spending Review (CSR) process the Department's PSA targets and Departmental strategic objectives have been re-evaluated to allow a clearer line of sight from the Department's vision to the resources and the work of staff needed to deliver these objectives. As part of the preparations for the CSR the Department has thoroughly examined all areas of spend to assess the value-for-money that they give and to look for areas where money could be re-directed to Departmental and Government priorities. This should enable us, in line with the rest of Whitehall, to meet the 3% annual value-for-money savings target announced in the 2006 pre-budget report.

Making a further step-change in our project management capability

Project management

3.69 Over the last year the Department has worked to improve delivery through enhancing project management capability. The Project Pool is a flexible resource of 150 staff for allocation to Departmental priorities. The majority of these have now been trained in project management disciplines. The Project Pool maintains a regime for reporting on and monitoring its projects to ensure that they are following agreed minimum project management standards.

Business plan objective: corporate services

3.70 The Department's central directorates provide internal services and infrastructure to support the Department in the delivery of its objectives. They also take the lead in building internal capability and leadership, and maximising efficiency in the Department's running costs.

3.71 During 2006-07 the Department embarked upon a wide-ranging review of all of its running costs to ensure it can live within its reducing administration budget. This review led to plans for further, smaller scale restructuring, particularly in the corporate centre. Internal restructuring (such as of the SBS, see page 52) also led to reductions in running costs.

3.72 The Department has further developed its strategy to reduce the costs of estates and IT services, whilst delivering to industry standards. The strategy for the central London estate, based on flexible desking and consolidation of property holdings, will by 2008-09 deliver savings of £8.5 million per annum. The rationalisation of ICT assets and services should deliver savings in the order of £6 million per annum.

3.73 The Department's people strategy is to create a high performing department by:

- Building the Department's leadership capability.
- Managing its people to achieve high performance.
- Developing and deploying the skills and talents of its people.
- Working in partnership with its employees to develop and sustain a diverse, motivated and proud workforce.

Plans for 2006-07	Progress in 2006-07
Building leadership capability – developing a new talent management programme to identify people with potential	<p>Leadership</p> <p>3.74 The Department has prioritised investment in leadership development during 2006-07. The need to develop the Department's leadership capacity was identified in the Department internal staff survey and the Capability Review findings, reinforced the need for continued focus on this.</p> <p>3.75 A facilitated leadership development programme for the Management Board was rolled-out in 2006 and this has now been cascaded to their immediate teams. In parallel to this development, Senior Civil Servants (SCS) and their immediate teams have also participated in an 18 month leadership development programme. This programme ended in January 2007 and 1,400 people took part. In the coming year the Department will evaluate the successful elements of both programmes. These will then form an on-going package that staff across the department can access in order to support and reinforce their leadership capability.</p> <p>3.76 In February 2007, the Department launched a new talent competition to identify thirty emerging leaders, aimed at providing the development to prepare them for Senior Management. Selection is based on staff who are beginning to show potential skills and behaviours required for the Senior Civil Service (SCS), based on the professional skills for government framework. Applications from groups currently underrepresented in the SCS have been actively encouraged during the recruitment process. Successful candidates will access a new self-managed, tailored menu of learning and development options, geared to both the individual's development and the needs of the business.</p>
Managing for high performance	<p>Performance appraisal</p> <p>3.77 In 2006-07 the Department relaunched its framework for performance appraisal and development reviews, bringing together and streamlining its existing processes in one on line system. The system set new standards for regular reviews between line managers and employees (mandatory every six months but recommended to take place each quarter), emphasising the benefits of giving honest and constructive feedback. Expert advice and support is provided to line managers to help them deal with colleagues whose performance is not at an acceptable level, with the aim of returning performance to a satisfactory level as quickly as possible.</p>
Developing and deploying our skills and talents	<p>Professional Skills for Government</p> <p>3.78 In 2006-07, the Professional Skills for Government (PSG) framework was rolled out to all Senior Civil Servants and to staff just below these grades. PSG is a personal and career development framework, giving civil servants the opportunity to acquire the skills needed to deliver business objectives and make future career choices. The Department ran a series of workshops to support implementation, helping line managers and employees to assess their existing skills and identify future development needs. The framework will be rolled out to remaining staff in 2007-08.</p> <p>3.79 The Professional Skills framework has also underpinned recruitment competitions in 2006-07, for the Senior Civil Service, Emerging Leaders and the Accelerated Development Programmes. The framework has also been used to support organisational restructuring, external appointments and, increasingly, internal moves within the Department.</p>

Plans for 2006-07

Progress in 2006-07

European expertise across the Department

3.80 The Department has established a plan to disseminate more effectively knowledge across the Department on European issues. This includes: widening membership of the Department's Europe Community of Practice; updating the Europe Intranet; setting up a network to coordinate Department-wide EU consultations; continuing the series of lunchtime seminars and exploiting the knowledge and experience of staff returning to the Department from Brussels postings through a structured programme of dissemination. A new framework has been established for managing Seconded National Experts to help ensure that people are matched to posts covering the Department's priority European policy areas.

Working in partnership with our employees – promoting the benefits of diversity and meeting the commitments in the DTI's diversity plan, in line with the priority requirements of the Civil Service 10 point diversity plan

Diversity

3.81 In 2005 the Department refreshed its diversity strategy to take account of the considerable change that the Department has been through in recent years and its new mission statement ("creating the conditions for business success and helping the UK respond to the challenge of globalisation"). The new strategy set out the Department's diversity statement:

- We believe that every employee should be treated with openness, honesty and respect. We won't tolerate unfair treatment or discrimination. We want to be an organisation that people are proud to be part of.
- We will aim to have a workforce that reflects the diverse community which we serve.
- We will value and make the best use of the diversity of talent in the Department so that its people fulfil their potential and create the conditions for business success.

3.82 The refreshed diversity strategy was agreed by the Management Board and takes account of the aims of the "Cross Whitehall 10 point plan." The plan commits Government Departments to 10 key areas for action on diversity and targets progress towards making the civil service more diverse.

3.83 One of the Department's key aims in 2006-07 has been to establish an accurate picture of the diverse backgrounds of its staff. The Department completed an exercise to update Senior Civil Service (SCS) diversity data, with the full cooperation of all SCS. In 2007-08 the Department is undertaking a similar exercise to improve the diversity data about other staff.

3.84 A supplier has been appointed in 2006-07 to develop training for the Department's key leaders aimed at raising awareness about diversity and equal opportunities issues. The programme will be delivered in 2007-08 and the Department will also be developing a diversity awareness programme for all other staff.

Figure 3.1

Senior civil service diversity statistics	DTI Performance April 2006	DTI Performance April 2007	Cabinet Office Target by 2008	Dept. Target by 2008
SCS who are women	27%	30%	37%	37%
Top SCS posts occupied by women	23%	23%	30%	35%
SCS from ethnic minority backgrounds	4%	5%	4%	8%
SCS with disabilities	5%	3%	3%	5%

Plans for 2006-07**Progress in 2006-07**

3.85 Preparations for the 2006-07 competition for promotions to the SCS included training for assessors in diversity and equal opportunities awareness and the participation of the Government Special Adviser on Diversity. Diversity Talent development schemes for more junior staff are being developed and will be launched later in 2007.

3.86 The Permanent Secretary also met the chairs of the various Diversity Advisory Groups and intends to continue this dialogue. The Department has well established Diversity Advisory Groups who provide advice and guidance on a wide range of diversity issues. The Department's Diversity Steering Group was established in 2006 and monitors progress on the delivery of the Department's diversity strategy.

Employment of disabled persons

3.87 The Department operates the "two ticks" scheme during all recruitment and promotion processes which ensures that disabled candidates who meet the minimum requirements are invited to interview. Staff involved in recruitment and selection processes are provided with specific diversity training which covers a range of disability issues. Those employees who declare a disability or long-term health condition are assessed through the Disability Management Service which is provided by a contracted expert. The contractor makes recommendations for reasonable adjustments to assist the individual in the workplace.

3.88 The Department's ongoing partnership with the Departmental Trade Unions has enabled it to maintain effective employee relations during a period of significant restructuring and staff redeployment.

Appropriate handling of current restructuring programme

Restructuring

3.89 The Department has been assessing its activities and looking at ways it can work more efficiently and effectively. The result is a significantly smaller, more tightly focused policy department with delivery carried out by our delivery partners. To realise this vision the Department will need to focus on a smaller core of highly skilled people able to influence Whitehall and the business community. This has resulted in major restructuring and a significant number of staff reductions.

3.90 The Department is supporting restructuring with a new strategy for redeploying surplus staff. Staff whose posts were cut between mid 2004 and April 2006 were supported by a dedicated team to help them secure alternative posts. Over 400 members of staff either secured a new post or took advantage of voluntary early exit schemes. At November 2006, 9 staff remained surplus and were served notice of compulsory redundancy.

3.91 The Department's efforts to minimise the number of compulsory notices have continued as further surplus staff have been identified as a result of restructuring during 2006-07. Since January 2007 some 370 people have been declared surplus and are being supported, again by a dedicated team, with additional input from VT Methvens (external redeployment advisors). By the end of May 2007, over 100 surplus staff had secured a new post; some 140 people opted for a voluntary exit package; and a further 40 redeployed to posts vacated by those non-surplus staff who volunteered to leave the Department.

Plans for 2006-07	Progress in 2006-07
<p>Deliver an HR IT operational efficiency project to streamline transactional processes</p>	<p>Operational efficiency</p> <p>3.92 The HR Operational Efficiency Project has been renamed eHR and will deliver a number of efficiency savings to the Department. It is tasked with sourcing, testing and implementing a new Human Resource Management System, (used to maintain electronic staff records) replacing the existing system, Calipsoe.</p>
<p>Introducing improvements to DTI's record management system and processes to ease access to relevant information</p>	<p>Record management</p> <p>3.93 The Department's current electronic document management service is migrating to the latest software release in late summer 2007. Improved features will enhance the Department's information capabilities and continue its recognised pre-eminence in this area as measured by The National Archive (TNA) assessment.</p>
<p>Rolling out improved IT support for flexible working where business justification is established</p>	<p>IT</p> <p>3.94 Deployment of BlackBerrys for wireless email service for staff who need to work remotely is now complete. Deployment of secure laptops is running to schedule, with over 300 users trained and issued with their devices.</p>
<p>Appropriate security measures to meet all threat aspects</p>	<p>Security</p> <p>3.95 The Department has continued to review its protective, personnel and information security policies and practices, and Departmental contingency planning, in response to terrorist and civil threats to its staff and assets. It has exercised its contingency plans. The Department has also achieved certification to ISO27001, the new European information security standard.</p>
<p>Reducing the cost of processing financial transactions by 50% by March 2007</p>	<p>Transaction costs</p> <p>3.96 Following the successful implementation of an electronic procurement solution, cost savings from headcount reductions in the Department's commit to pay processing are being achieved while maintaining the quality of service. On finance processing costs, original costs at the start of this were £11.50 per invoice. The Department has now reduced this to £5.90 (51.6%). Further cost reductions are planned for 2007-08 as part of the Department's requirement to live within its reducing Administration Budget.</p>

Business plan objective: corporate communications

3.97 Building and maintaining effective corporate communications and external relations along with a cost effective and strategic approach to marketing and communications continues to be a priority for the Department.

Plans for 2006-07	Progress in 2006-07
Developing the Media Features unit into an in-house PR centre of expertise	<p>Media Features</p> <p>3.98 The Department received very positive feedback from the publications we have worked with, resulting in consistent further requests for interviews, articles and feature material. The cross-section of media show the strengths of the team – podcasts, online news sites, international policy reviews, local newspapers, consumer, women's press.</p> <p>3.99 Around the Energy Review, for example, we provided more than 30 articles in national, regional and specialist press, as well as in international titles which were well received.</p>
Developing the Media Features unit into an in-house PR centre of expertise	<p>Correspondence</p> <p>3.100 Whitehall targets require, firstly, that 80% of MPs' letters to the Department are answered within 15 days and, secondly, that 93% of telephone calls to the Department are answered within 15 seconds. The Department answered 71% of all MPs letters on time compared to 49.4% last year and exceeded 80% for the second half of the year. A comprehensive restructuring process is in progress to ensure that the Department exceeds 80% for 2007 and succeeding years. This will also result in a smaller, more highly skilled response unit using new technology which will be significantly less expensive to run. The Department answered 92% of phone calls within 15 seconds compared to 87% for 2005.</p>

Figure 3.2

Correspondence	2003	2004	2005	2006
Letters to Ministers answered or receiving a holding reply within 15 working days	97.5%	84%	50%	70%
MPs' letters answered within 15 working days	72%	50%	50%	71%
Volume of total correspondence drafted by the Ministerial Correspondence and Enquiry Unit	N/A	N/A	46%	60%

Based on cases received during 2006

Business plan objective: legal services

3.101 The aim of Legal Services Group is to ensure that Ministers and officials of the Department and its executive agencies receive the highest quality legal services they need to deliver Departmental objectives. The Group supports the Department's legislative programme and provides advice on aspects of Departmental policy. It investigates and prosecutes criminal offences uncovered by other parts of the Department, principally the Insolvency Service and Companies Investigation Branch (CIB) and advises the Department on any issues involving criminal law and policy. Legal Services Group also has an influencing role in Whitehall, representing the Department's interests on Government-wide legal issues, for example, relating to EU employment policy through chairing the Whitehall-wide Discrimination Law Working Group and, in the criminal justice field, through chairing the Whitehall Prosecutors Group.

3.102 The Department's Legislative Board, chaired by the Solicitor and Director General Legal Services, leads on the prioritisation of the Department's legislative programme and monitors the progress of Bills in the preparatory stages.

Plans for 2006-07	Progress in 2006-07
Clients receive high quality, timely and fit for purpose legal advice on major legal projects and policy delivery	<p>Legal services</p> <p>3.103 The Department continued to benefit from the expert advice provided by the Legal Services Group on aspects of policy, investigations, prosecutions, EU negotiations, the development of international commercial and private international law, and Freedom of Information issues. Noteworthy projects included the Companies Act (which was the biggest Act in Parliamentary history; see page 84) the Consumer Credit Act (see page 71), the Work and Families Act (see page 80) and the Consumers, Estate Agents and Redress Bill (see page 72).</p> <p>3.104 As part of its commitment to delivering excellent legal services, the Group takes regular soundings from colleagues within the Department and those with an interest outside such as Cabinet Office legal advisers on its performance, including an annual survey. The most recent survey (January 2007) showed that 99.4% of clients were either satisfied or very satisfied.</p>
Enforcement of corporate and insolvency regime is effective and appropriate	<p>Enforcement</p> <p>3.105 The Department's enforcement arm faced a heavy demand and difficult resourcing pressures. It responded by reviewing and successfully adapting its operational procedures and organisational structure and the effort has paid dividends in improving efficiency.</p> <p>3.106 In addition, the Department has continued to chair the Whitehall Prosecutors Group and play a leading role in co-ordinating the efforts of Government prosecuting authorities.</p>
DTI bids for legislation are prioritised, credible and efficiently progressed	<p>DTI legislation</p> <p>3.107 The Legislative Board proved its value in successfully leading the prioritisation of the Department's legislative programme bids. It monitored the progress of Bills in the preparatory stages and actively promoted greater knowledge and understanding across the Department by hosting a series of seminars on primary and secondary legislation and Parliamentary procedures.</p>

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Business plan objective: efficiency targets

Targets

3.108 The Department's SR04 Efficiency target as in the Gershon Report:¹

To achieve annual efficiencies of at least 2.5% a year, equivalent to a total over the Spending Review period of at least £380 million by 2007-08. At least half of these efficiencies will be cash releasing, allowing resources to be recycled to priority programmes.

3.109 As part of this efficiency programme the Department set the following targets, to be achieved by the end of 2007-08:

- deliver around 80% of the total efficiency gains principally by means of increasing the effectiveness of the Department's business support products and securing efficiency gains within the science budget;
- deliver around £20 million of savings through improved procurement, particularly through more effective procurement of external consultancy and information technology, and rationalisation of the Departmental estate;
- work with the RDAs to ensure the efficient devolution of business support products and to minimise overlaps in service provision; and
- achieve a total reduction in civil service posts of 1,010 in the core Department,² 200 in UK Trade & Investment and 270 in other bodies, and be on course to have relocated at least 685 posts out of London and the South East by 2010.

¹ See www.hm-treasury.gov.uk/media/B2C/11/efficiency_review120704.pdf

² In reporting staff reductions as part of the SR04 efficiency programme core DTI refers to DTI HQ, SBS and DTI & SBS activities in Government Offices.

Achievements up to March 2007

- The Department has achieved overall delivery of efficiency savings of £484 million at the end of the second year of the programme against an overall target of £380 million for the SR04 period. The reported savings have been achieved across the Department, with the following areas achieving savings beyond their target:
 - Rationalisation of the Department's Business Support Schemes has resulted in considerable savings above the original target. The Business Support Monitoring Surveys (BSMS) have contributed to providing evidence for quality assurance.
 - Research Councils – total cumulative savings are above target and continue to be largely achieved through better alignment of science spend to the Government's priorities.
 - Accommodation and ICT – significant savings achieved from the implementation of the "Two Roof" programme. Savings on commodity items from better commercial deals have been exceeded.
 - RDA work streams have realised efficiency savings ahead of target as they continue to achieve savings from the structural and strategic changes implemented as part of the programme.
- As at the end of 2006-07, the core Department (including DTI staff in Government Offices) has delivered 1,251 staff reductions against the 2007-08 target of 1,010. The Department's agencies have delivered 189 staff reductions against the 270 target.
- The Department, its agencies and delivery partners have relocated – from London and the South east – 314.5 posts against a March 2008 target of 85 and against the overall target of 685 posts by March 2010. Areas where posts have been relocated include; Newport, Birmingham, Manchester and Swindon.
- The Office of Government Commerce (OGC) assesses Government Departments' progress towards their efficiency targets. The Department received a positive assessment at the most recent review in November 2006.

3.110 The following table provides more detailed financial savings showing progress against our efficiency targets. Please refer to annex A.1 for notes on quality measures and data sufficiency.

Figure 3.3

SR04 Efficiency Work stream	2005-06 delivery (Year one)		2006-07 delivery (Year two)		2006-07 target (Year two)		SR04 Overall target	
Workforce targets								
Staff reductions	1062		1251		1010		1010	
Agency reductions	167		189		168		270	
Relocations	251		314.5		85		685	
Financial efficiency gains (cumulative)	N/C² £m	C³ £m	N/C £m	C £m	N/C £m	C £m	N/C £m	C £m
Staff reductions¹	0.00	33.71	0.00	37.63	0.00	28.24	0.00	39.25
Internal Operations	4.25	11.85	-0.12	31.98	11.62	13.59	20.29	13.96
Value for money in programme spend	0.00	1.92	27.09	5.82	6.21	18.11	12.42	20.07
Business Support (inc SFIE)	0.00	27.50	0.00	70.21	0.00	34.20	0.00	41.36
Science DTI & Research Councils⁴	26.31	50.58	86.79	125.96	48.64	77.50	79.79	115.39
Nuclear Decommissioning Authority	N/A	N/A	0.00	40.00	0.00	6.68	0.00	13.72
RDAs (total)⁵	23.07	24.15	76.11	81.59	47.75	47.75	73.59	73.59
RDAs (DTI)	2.92	3.06	9.64	12.39	6.09	10.47	9.32	14.59
Trading Funds (Companies House and Patent Office)	2.40	0.00	2.40	0.00	6.85	0.00	10.55	0.00
Other agencies and NDPBs	4.54	2.22	8.84	7.31	6.19	5.51	7.22	10.59
Exceptional items⁶	0.24	12.91	0.24	18.08	N/a	N/a	N/a	N/a
Total (DTI)⁷	40.66	143.75	134.88	349.38	85.60	194.30	139.59	268.93

1 Staff reductions here refers to the reductions delivered by core DTI (including SBS and DTI & SBS activities in Government Offices; excluding UKTI).

2 N/C = Non-cashable efficiency gains. These are essentially representative of the Department and its work streams delivering more outputs for the same level of funding. These gains do not release "cash" for reinvestment, but allow the Department to keep funding at constant cash levels in these activities.

3 C = Cashable efficiency gains. These gains are cash releasing and are representative of the Department's ability to maintain delivery levels, while reducing spend in the areas identified.

4 In line with existing reporting mechanisms the RDAs and the Research Councils report delivery a quarter behind actual delivery. Accordingly, the 2005-06 and 2006-07 figures given here for these bodies show cumulative efficiency delivering up to Quarter 3 of the relevant year.

5 DTI is the lead sponsor Department for the RDAs and as such has overall responsibility for the achievement of its efficiency delivery gains. All Departments that contribute to the RDA Single Pot claim from the total savings achieved on a pro rata basis. The Department has therefore presented above both the total savings and DTI's share of those total savings. See also note 4.

6 Exceptional items include efficiency gains that have been achieved, which were not part of the original targets but score against Gershon efficiency criteria and provide contingency for the Programme.

7 The total represents DTI savings only, including DTI's share of RDA savings. The full RDA savings also presented in the table are for information only, and are excluded from the total.

Plans for 2006-07 Progress in 2006-07

Explore the options for a greater sharing of Corporate Services with other parts of the DTI family and wider Government

Sharing of corporate services

3.111 The Civil Service Steering Board has recently decided that DWP and HMRC are best-placed to offer HR and Finance shared services to the Whitehall group and that Departments within that group should not buy services elsewhere. The Department has already established contact with DWP and begun a dialogue to identify key issues and options in going forward.

In the meantime, the Department continues to explore options for sharing corporate services within the Departmental family and to make further efficiency improvements in its HR, IT and Finance operations.

Having achieved the 1010 staff reduction target for DTI core we will work to achieve the planned reductions of 168 staff in our agencies and other arms-length bodies

Staff numbers

3.112 See the "achievements" box above.

Begin to deliver efficiency gains of at least 2% through effective contract management by the Nuclear Decommissioning Authority

NDA efficiency

3.113 The Nuclear Decommissioning Authority (NDA) are on target to exceed target efficiency savings. This is achieved through the contracts they place for nuclear site decommissioning and clean up. Contractors must achieve efficiency savings before they can access their fee bonus. The NDA have agreed a robust methodology with the OGC so that the savings can be accurately quantified

3.114 See also PSA 11 (NDA), page 105.

Embed efficiency delivery across all areas of business to ensure that efficiency gains continue to be made against the overall £380m target

Efficiency savings

3.115 Efficiency gains continue to be delivered across all areas of business and savings of £484 million have been achieved against the overall target of £380 million. Please see the "achievements" box above for further detail.

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Section 3.5

Sustainability; environmental report

3.116 This section discusses the Department's work on sustainable development. On the one hand this includes sustainability aspects of the Department's work in pursuing its Departmental objectives (for instance on energy). Secondly, this section contains its environmental report, setting out its internal environmental performance – for instance energy used in the Department's buildings.

Sustainable development

3.117 Sustainable development enables people throughout the world to satisfy their basic needs and enjoy a better quality of life without compromising the quality of life of future generations. The Department has a major contribution to make, by tackling climate change and, crucially, decoupling economic growth from environmental degradation. The Department is committed to integrating sustainability across its agenda to support the UK Government Sustainable Development Strategy.¹⁴⁵

3.118 The Department's commitment to sustainable development was further strengthened in 2006 with the appointment to the Management Board of the first ever Sustainable Development Champion. Combined with a network of SD Champions across the Department this will ensure that the Department continues to fulfil its long-term commitments set out in the Government Strategy.

3.119 In another significant milestone the Department's first ever Sustainable Development Action Plan was published and warmly received by the Sustainable Development Commission – the Government's watchdog for sustainability. An updated Departmental Sustainable Development Action Plan was launched in May 2007¹⁴⁶ setting out the Department's considerable achievements in 2006-07 and new, SMART targets for the year ahead. Key successes last year included:

- **Energy:** publication of the Energy Review Report in July 2006 which put forward a large and ambitious package of measures to address the challenges of climate change and energy security (see section 2.7);
- **Construction:** conclusion of the review of the Sustainable Construction Strategy which will lead to the production of a new strategy over the next 12 months. The "London 2012 Construction Commitment" was a practical example of joint working between the Olympic Delivery Authority, Government and the industry to ensure a sustainable approach that will bring lasting environmental, social and economic benefits through regeneration and legacy (see page 60, 63); and
- **Waste:** implementation of the UK WEEE Regulations leading to the future safe disposal of waste electrical and electronic equipment in line with EU

directives (2002/96/EC) and 2003/103/EC (see also page 40 about Knowledge transfer and innovation).

3.120 The Department has also made significant gains to reduce the environmental impact of the Departmental estate, see below.

3.121 Looking forward to the year ahead the Action Plan sets four strategic outcomes:

- continue to reduce DTI HQ's environmental footprint and develop a strategy for further reductions (see below);
- quantify and start to raise the level of understanding, and awareness, of sustainable development within the Department as a building block towards integrating it into policy making;
- develop an understanding of the barriers that industry face with regard to sustainable development and how we might be able to help them overcome these barriers; and
- through publication of the Energy White Paper, promote positive sustainable and environmental behaviours e.g. by facilitating the demonstration and deployment of sustainable and low carbon technologies; saving energy; strengthening delivery of renewables generation; and, delivering on our wider social and environmental objectives through continued commitment to an international price for carbon.

3.122 The Department will deliver 30 specific commitments in support of these outcomes during 2007-08 including on energy policy, innovation, procurement, working with key sectors, as well as the management of the Departmental estate. Please see the Action Plan for further details.

Environmental Report

3.123 The Department has made significant gains to reduce the environmental impact of the Departmental estate. Each year a return to the Sustainable Development Commission is undertaken which assesses the performance of Government Departments against the Framework for Sustainable Development on the Government Estate. In the 2006 assessment the Department came top of all Government Departments.¹⁴⁷ Highlights mentioned in the assessment included supply of 33% electricity from renewable sources and a 39% increase in waste recovery compared with the previous year. Further details on the Framework, including all information of the objectives and targets can be found at: www.sustainable-development.gov.uk/government/estates/index.htm

Summary of actions during 2006-07

3.124 The Department asked The Carbon Trust to conduct a feasibility study of possible renewable/green technologies that could be applied to the Department's buildings. The majority of technologies were dismissed due to environmental, economic and structural reasons. However, two technologies were identified. One being that St Mary's House can tap into the District Heating system that is available in Sheffield. The second was to install Solar Thermal water heaters at 1 Victoria Street that would preheat water prior to entering the boilers that would

prevent the boilers having to work as hard and hence saving gas and preventing CO₂ emissions. Both of these projects are still being reviewed for a number of reasons but will be addressed once the new Facilities Management Agent contract commences in May 2007.

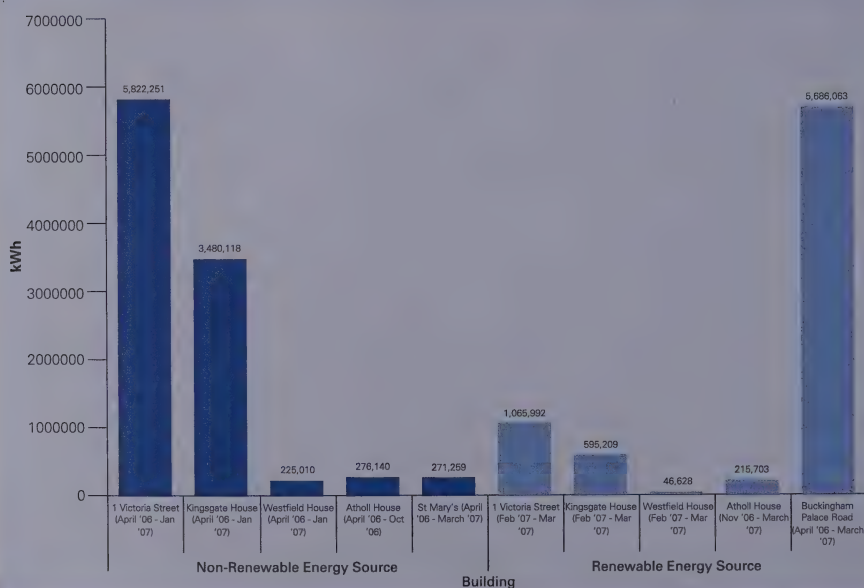
3.125 The Department has begun the roll out of additional recycling facilities for cans and plastic bottles, which have provided good results in the short time that they have been in place. This will significantly increase the Department's total recycling volumes. Once rolled out to the London sites this will be rolled out to the outer London building where practical. It is also proposed to extend these facilities further to encompass glass and batteries.

3.126 We are in the process of installing a pilot LED Lighting Project in an area at 1 Victoria Street, which should provide significant savings in energy (and hence CO₂), maintenance and waste disposal. However, this technology is in its infancy and may prove not to be suitable yet as office lighting. Such pilots are excellent for driving research and design in these areas.

3.127 The Department has recently procured Green Electricity tariffs that extend to all London HQ buildings as well as St Mary's House and Atholl House.

Electricity

Figure 3.4 Total electricity consumption per building (April 2006–March 2007)



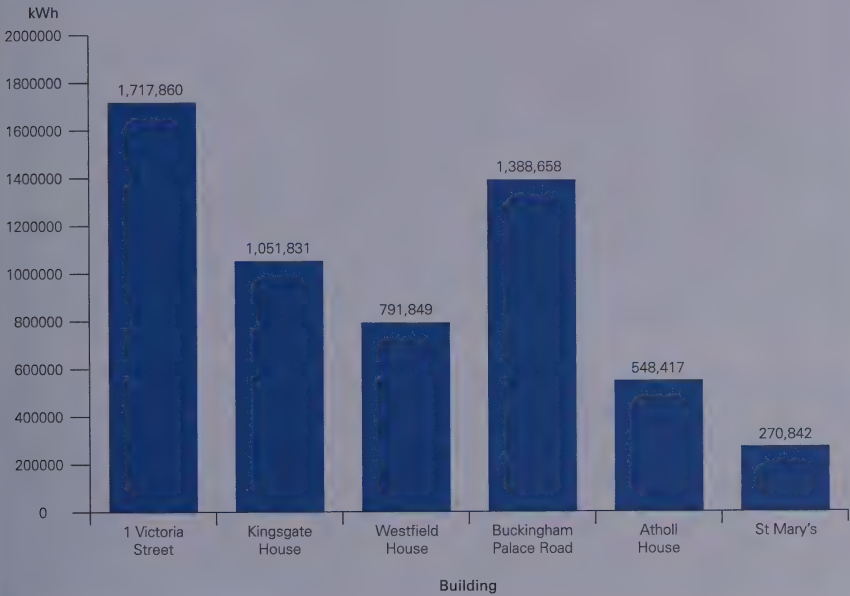
3.128 The Departmental estate has shrunk and the overall electricity consumption has reduced. However, individual buildings have increased electricity consumption due to increased building occupancies. All electricity contracts have been renewed and all sites are now beginning to be supplied with 100% green electricity. All sites are maintained in an attempt to maximise energy efficiency and all new equipment

must meet minimum environmental requirements (e.g. all fridges must have Energy EU rating of A or better).

Gas

3.129 All sites have consumed less gas than the previous year; with the exception of Westfield House that has increased its consumption by approximately 200,000 kWh. The low consumption for the past year is almost certain due to the exceptionally warm weather. As with electricity, all plant is maintained to ensure energy efficiency is to a high standard.

Figure 3.5 Total gas consumption per building (April 2006–March 2007)



Water

3.130 Atholl House and Kingsgate House reduced their water consumption on the previous year. All other sites have seen some increases in their water consumption due to increased usage. However, the Department has vacated 10/18 Victoria Street and will shortly vacate Buckingham Palace road which will contribute to a reduction in water consumption. These premises will not be included in the annual energy returns.

Waste

3.131 All sites have reduced their waste arisings, with the most significant reductions at Kingsgate House (42,670kg) and Buckingham Palace Road (45,055kg). 1 Victoria Street is the only site to increase total waste recycled (10,209kg). It is expected that all sites will increase their total waste recycled with the introduction of additional recycling facilities for cans and plastic. The recycling volumes for the past quarter, which have only come out of 1 Victoria Street are: plastics 992kg and cans 161kg.

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Figure 3.6 Total water consumption per building (April 2006–March 2007)

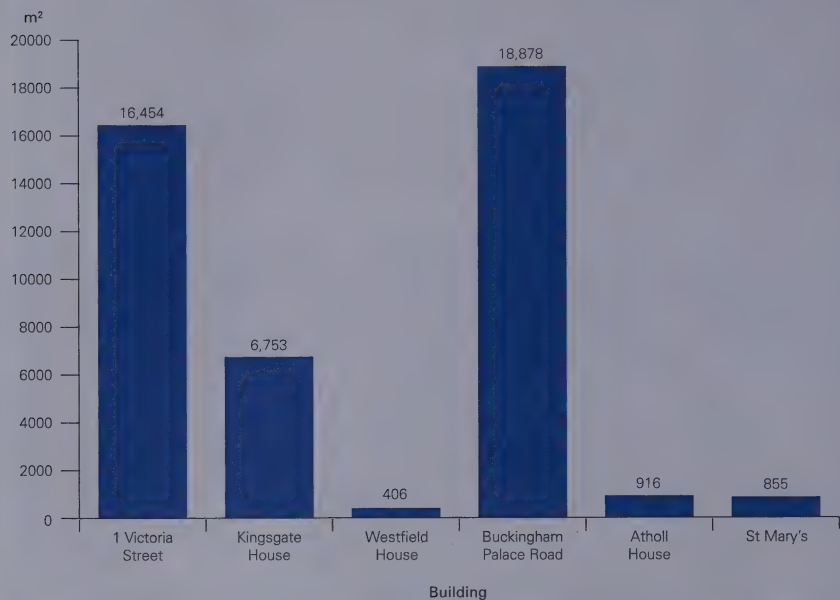
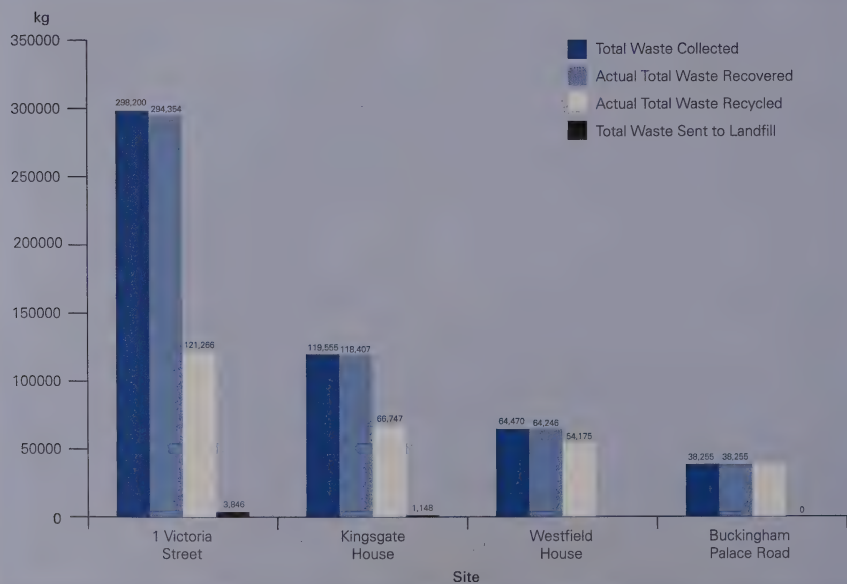


Figure 3.7 Waste arisings (April 2006–March 2007)



Section 3.6

Better regulation and equality

3.132 Better regulation initiatives affect all the Department's work. Sustainability aspects of the Department's policies have already been discussed in the previous section (3.5). This section covers areas such as simplification of regulation and promoting equality in its policies.

3.133 The Department is strongly committed to better regulation. We have placed its principles at the heart of Departmental policy making, and published an ambitious Simplification Plan to reduce annual administrative burdens by 25% by 2010. The Permanent Secretary and the Secretary of State have made better regulation an "acid test" of departmental success. A strategy for embedding better policy making principles into the Department's culture was formally set in train by the Secretary of State and the Permanent Secretary last summer. Genuine, sustained progress requires a policy-making culture characterised by challenging the instinct to regulate and by ensuring that the principles of good regulation (transparency, proportionality, consistency, targeting and accountability) are factored into the Department's policy making from the earliest stages.

3.134 The Department's Ministerial Challenge Panel has been a major force in engaging business, consumers, shareholders and employees. It is helping to open the Department to challenge and culture-change.

Impact Assessments (IA) and consultations

3.135 Impact Assessments accompany any new policy proposal that has an impact on business, and demonstrate that the design of the proposal is informed by comparing the benefits of each option with the costs. The Department has been presented by the National Audit Office as an exemplar of best practice in Regulatory Impact Assessment.¹⁴⁸ The Department has been fully supportive of efforts by the Better Regulation Executive to streamline the impact assessment process, and ensure that policy proposals are transparent and properly quantified. Departmental economists have been working closely with the BRE over the autumn on developing the IA template and toolkit, which will help to ensure that all cost and benefit information is presented in a more transparent way.

Figure 3.8

Consultations held by DTI 2006-07

Total consultations	49
Lasted 12-weeks or more	40
Ministerial authorisation for shorter consultation	9
Compliant with the Department's consultation template	47
Two or more consultation methods used	47

3.136 A Working Group, led by the Better Regulation Executive, is currently seeking the views of those who regularly respond to Government consultation and those who may feel that Government consultations do not sufficiently engage them, in order to promote better consultation practices.

Simplification & administrative burden reductions

3.137 The Department published its Simplification Plan on 11 December 2006.¹⁴⁹ The Plan is a key part of an ongoing commitment to reducing unnecessary red tape and to making essential regulation simpler and more streamlined. It builds on our draft published a year previously. It shows how and where the Department will deliver specific savings in administrative burdens (red tape costs imposed on business by regulation, such as form-filling, record-keeping, official returns and complying with inspections). These burdens – estimated by PricewaterhouseCoopers (PwC) last year through the cross-Government Administrative Burdens Measurement Exercise – are very broadly estimated to cost business just under £5.3 billion per year.

3.138 Like other Departments, we aim to reduce these burdens by 25% by 2010. Drawing extensively on advice and input from key business, employee and consumer bodies and delivery partners, the Department has worked up proposals estimated to deliver savings of around £700 million – a first instalment towards the Department's overall target of £1.3 billion. Three areas – employment, company law and consumer law – account for 87% of the Department's £5.3 billion annual administrative burdens.

3.139 The key Initiatives in the Simplification Plan are as follows.

- **Employment law** – The Department's proposals for simplifying employment law will result in estimated annual savings of over £425 million. These proposals include areas where the Department is considering changes to the regulations themselves (e.g. dispute resolution, which both employees and employers have raised as a key concern), and others where it is looking to improve the content and awareness of guidance and tools to aid compliance (a wide range of businesses have told us that they want this). See also page 81.
- **Company Law** – Implementing the Companies Act 2006: fundamental reforms saving companies nearly £150 million a year. See also page 84.
- **Companies House** – Automated services through My Companies House, with individual company portals and a joint filing project with HMRC that will save business up to £65 million a year. See also page 85.
- **Consumer Law** – Radically simplifying business-to-consumer law by repealing provisions in 22 pieces of consumer law. The Department is doing this as part of our implementation of the EU Unfair Commercial Practices Directive (UCPD) – which creates a general duty not to trade unfairly – creating leaner, flexible, more future-proof regulation, and saving up to £35 million a year. See also page 71.

- **Small Business Service** – Development of an International Trade Single Window, cutting form filling and other paperwork and improving access to information leading to faster goods clearance for importers and exporters – saving them about £60 million a year.

3.140 Please note that the Department is also working to simplify its business support work by reducing the number of business support schemes (see page 52), not to be confused with the Simplification Plan aimed at reducing burdens on business, as described above.

EU better regulation

3.141 Better regulation has become a major priority in Europe, building on the work done during the UK Presidency in 2005. In November 2006, the Commission published a major package of proposals covering administrative burdens, an extension of the rolling simplification programme and strengthening of impact assessment in the Commission. A key UK goal for the Spring European Council in March 2007 was that the Council should provide political support for the EU better regulation agenda. This goal was achieved. The Spring Council endorsed:

- a target to reduce administrative burdens arising from EU legislation by 25% by 2012 and the Commission's Action Programme to achieve that goal;
- the creation of an Impact Assessment Board to improve the quality of EU impact assessment;
- the Commission's rolling simplification plan.

3.142 The Davidson Review¹⁵⁰ on the implementation of European legislation published on the 28 November 2006 found no evidence of "gold plating" (imposing additional burdens beyond the minimum required by new EU legislation) in Departmental policy.

Equality

3.143 Please also note page 135, where diversity within the Department is discussed, including its policy on employment of disabled people.

3.144 The Department, along with other public sector organisations, is required by legislation to promote equality of opportunity in all its functions for race, gender and disability.¹ This Report provides an update on actions set out in the Department's Race Equality Scheme.¹⁵¹ The reporting duties on disability and gender have come into force in 2006 and 2007 respectively, and a first report on these aspects will be contained in next year's annual report.

1 The Race Relations Act 1976 (as amended by the Race Relations (Amendment) Act 2000); the Sex Discrimination Act 1975 (as amended by the Equality Act 2006), and the Disability Discrimination Act (as amended by the Disability Discrimination Act 2005). There is no similar legislation currently as regards religion/belief, sexual orientation or age.

Commitment in Race Equality Scheme 2006-08	Progress made
Equality Impact Assessments (EIA)	
An EIA to be carried out on the review of Sunday Trading laws	An equality impact assessment was prepared on this area of work, but the policy has not been taken forward in the current legislative calendar.
Race equality issues to be considered as part of the implementation work on the Consumer Credit Act	The Department continues to discuss the issues surrounding Islamic financial products with the Islamic Bank of Britain
An EIA to be carried out on proposals to increase the statutory paid leave entitlement	The EIA is available on the Department's website. ¹⁵² It has been used to inform policy direction.
An EIA to be carried out on work on Employment Agency standards	The consultation on protecting vulnerable agency workers (see page 79) has closed at the end of May 2007, and an EIA will be published with the Government's response at the end of July 2007.
An EIA to be carried out on proposals for Streamlined Individual Voluntary Arrangements	Survey work is currently being carried out that will inform an EIA, expected later in 2007.
EIAs to be considered on: DTI's new electronic staff appraisal and reporting process; the annual staff survey, sickness absence monitoring and restructuring and relocation plans	<ul style="list-style-type: none"> • An assessment of equality aspects of the staff appraisal system will be made once it has been in existence for a full reporting year • Staff survey carried out, including section on equal opportunities and voluntary monitoring. Follow-up action currently being considered. • Policy on sickness absence monitoring is still under review – an EIA will form part of this work.
Other actions	
Make progress against PSA target 10 (from the 2004 Spending Review) aimed at reducing the incidence of racial discrimination at work experienced by ethnic minority employees	Please refer to PSA 10) (page 77)
Launch of STEM (Science, Technology, Engineering and Maths) Access Grants for British Minority Ethnic groups	Project launched. Data produced from awards will be used to inform best practice in this area.
Debt advice scheme to monitor ethnicity of all its clients	Details on ethnicity has been collected on the 6,000 plus participants to date. This data is currently being analysed, with a further review at the end of the scheme (2008).
Work with Ethnic Minority Business Forum (EMBF) on the results of its survey on access to finance	Survey results published in early 2007 suggest there is a wide variation in financial outcomes across ethnic minority owned businesses. The Department is working with EMBF and other partners to highlight good financial management and promote greater financial awareness.

Commitment in Race Equality Scheme 2006-08	Progress made
Monitoring use of UKTI services by companies with owners, partners, or directors from ethnic minorities is assisted by UKTI (PIMS system)	PIMS is a new system, launched in 2006. Use of UKTI services by such companies is reported both by service and across all trade services. PIMS results are available on the UKTI website. ¹⁵³
Study to be carried out of Employment Tribunals chairs' written judgements in race discrimination cases to explore their content, quality and depth.	Study published in September Employment Relations Research Series No 64. ¹⁵⁴
Develop two vulnerable workers pilots, including in some instances, BME and increasingly, migrant workers	Pilot schemes have been set up to find ways to ensure that the most vulnerable workers benefit from the Governments' employment rights, and will run for a period of two years (2007-09) These pilots aimed at the cleaning and building services sector and hospitality sector.
Consider British Minority Ethnic issues as part of consultation on Proposed future strategy for the Post Office Network	Public consultation held in early 2007. ¹⁵⁵ Post Office Ltd will be required to ensure that no one part of the network or no particular group of people is significantly more adversely affected than any other.
Carry out research on regional ethnicity and language profiles to ensue targeted communication on the digital switchover	Research has shown that whilst the take up of digital TV is 4% higher than the national average amongst minority ethnic groups, awareness of the switchover is up to 18% lower than the national average. Targeted campaigns and publicity therefore planned.

Section 3.7

Remuneration report

3.145 See section 3.1 above for general comments on appointment and remuneration of Board and Committee members of the Department.

Remuneration Policy

3.146 The remuneration of senior civil servants is set by the Prime Minister following independent advice from the Review Body on Senior Salaries. The Review Body also advises the Prime Minister from time to time on the pay and pensions of Members of Parliament and their allowances; on Peers' allowances; and on the pay, pensions and allowances of Ministers and others whose pay is determined by the Ministerial and Other Salaries Act 1975. In reaching its recommendations, the Review Body is to have regard to the following considerations:

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;
- regional/local variations in labour markets and their effects on the recruitment and retention of staff;
- Government policies for improving the public services including the requirement on departments to meet the output targets for the delivery of departmental services;
- the funds available to departments as set out in the Government's departmental expenditure limits; and
- the Government's inflation target.

3.147 The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations. Further information about the methods used to assess performance, contract conditions and other work of the Review Body can be found at www.ome.uk.com.

Performance and Reward

3.148 The Senior Civil Service (SCS) pay system consists of relative performance assessments. Individuals are assessed as being in the top, middle or bottom performance tranche of their pay band. All individuals in the top performance tranche and a proportion of the individuals in the middle performance tranche receive a non-consolidated bonus. Bonuses can vary in amount, however, everyone who receives a bonus must receive at least £3,000. The maximum bonus award is 20% of base pay. Cabinet Office has set the bonus pot this year at 7.6% of the SCS pay bill.

Service Contracts

3.149 Civil service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointments to be on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made.

3.150 Unless otherwise stated below, the officials covered by this report hold appointments, which are open-ended until they reach the normal retiring age of 65. Early termination, other than misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

- Andrew Cahn was appointed on a four-year contract commencing 27 March 2006. The notice period for the employee is 3 months. For the employer the notice period is 6 months or a period, if less, equal to the unexpired part of the fixed term contract.
- Mark Clarke was appointed on a three-year contract commencing 5 June 2006. The notice period for the employee is 3 months. For the employer the notice period is 6 months or a period, if less, equal to the unexpired part of the fixed term contract.
- Professor Sir David King was appointed on a contract for two years and nine months commencing 1 April 2005. The notice period for the employee is 3 months. For the employer the notice period is 6 months or a period, if less, equal to the unexpired part of the fixed term contract.
- Sir Keith O'Nions was appointed on a contract for four years and three months commencing 1 April 2004. The notice period for the employee and employer is 3 months.
- Vicky Pryce was re-appointed on a three-year contract commencing 10 March 2005. The notice period for the employee and employer is 3 months.

3.151 Further information about the work of the Civil Service Commissioners can be found at www.civilservicecommissioners.gov.uk.

Salary and pension entitlements for Ministers of the Department

3.152 The remainder of this Remuneration Report contains audited information. The remuneration of Ministers is determined in accordance with the provisions of the Ministerial and Other Salaries Act 1975 (as amended by the Ministerial and Other Salaries Order 1996) and the Ministerial and Other Pensions and Salaries Act 1991. The salary and pension entitlements of the Ministers of the Department of Trade and Industry for the year ending 31 March 2007 were as follows:

Figure 3.9

2006-07	Accrued pension at 65 at 31/03/07	Real increase in pension at age 65	CETV at 31/03/07	CETV at 31/03/06	Real increase in CETV	Ministerial salary received 2006-07	Ministerial salary received 2005-06
	£000	£000	£000	£000	£000	£	£
Secretary of State							
Rt Hon Alistair Darling, MP (from 5 May 2006) ¹	15–20	0–2.5	226	185	25	63,452	–
Rt Hon Alan Johnson, MP (from 9 May 2005 to 4 May 2006) ²	5–10	0–2.5	59	58	1	18,725	62,418
Rt Hon Patricia Hewitt, MP (to 6 May 2005) ³	–	–	–	–	–	–	6,242
Ministers of State							
Rt Hon Ian McCartney, MP (from 5 May 2006) ⁴	–	–	–	–	–	–	–
Rt Hon Margaret Hodge MBE, MP (from 5 May 2006) ⁵	5–10	0–2.5	98	82	6	32,897	–
Malcolm Wicks, MP (from 10 May 2005) ⁶	5–10	0–2.5	75	62	6	39,372	32,378
Alun Michael, MP (from 10 May 2005 to 4 May 2006) ⁷	5–10	0–2.5	108	107	1	19,427	32,378
Ian Pearson, MP (from 10 May 2005 to 4 May 2006) ⁸	–	–	–	–	–	–	–
Mike O'Brien, MP (to 9 May 2005) ⁹	–	–	–	–	–	–	6,746
Jacqui Smith, MP (to 9 May 2005) ¹⁰	–	–	–	–	–	–	9,713
Rt Hon Douglas Alexander, MP (to 6 May 2005) ¹¹	–	–	–	–	–	–	–

Figure 3.9 – continued

2006-07	Accrued pension at 65 at 31/03/07	Real increase in pension at age 65	CETV at 31/03/07	CETV at 31/03/06	Real increase in CETV	Ministerial salary received 2006-07	Ministerial salary received 2005-06
	£000	£000	£000	£000	£000	£	£
Parliamentary Under-Secretaries of State							
Jim Fitzpatrick, MP (from 5 May 2006) ¹²	0-5	0-2.5	41	33	4	24,969	—
Lord Truscott, (from 13 November 2006) ¹³	—	—	—	—	—	—	—
Barry Gardiner, MP (from 10 May 2005 to 4 May 2006) ¹⁴	0-5	0 - 2.5	15	14	—	7,373	24,576
Meg Munn, MP (from 13 May 2005 to 4 May 2006) ¹³	—	—	—	—	—	—	—
Lord Sainsbury of Turville (to 9 November 2006) ¹³	—	—	—	—	—	—	—
Nigel Griffiths, MP (to 9 May 2005) ¹⁵	—	—	—	—	—	—	7,373
Gerry Sutcliffe, MP (to 4 May 2006) ¹⁶	0-5	0-2.5	46	45	—	7,373	29,491

Notes

- ¹ The 06-07 salary figure quoted is for the period 5 May 2006 to 31 March 2007, full year equivalent is £75,964. CETV stated as 'at 31/03/06' is in fact at 5 May 2006.
- ² The 06-07 salary figure quoted is for the period 1 April 2006 to 4 May 2006, full year equivalent is £75,654. The 05-06 salary figure quoted is for the period 9 May 2005 to 31 March 2006, full year equivalent is £74,902. CETV stated as 'at 31/03/07' is in fact at 4 May 2006.
- ³ The 05-06 salary figure quoted is for the period 1 April 2005 to 6 May 2005, full year equivalent is £74,902.
- ⁴ Salary and pension details can be found in the Departmental resource accounts for 2006-07 of the Foreign and Commonwealth Office.
- ⁵ The 06-07 salary figure quoted is for the period 5 May 2006 to 31 March 2007, full year equivalent is £39,385. CETV stated as 'at 31/03/06' is in fact at 5 May 2006.
- ⁶ The 05-06 salary figure quoted is for the period 10 May 2005 to 31 March 2006, full year equivalent is £38,854.
- ⁷ The 06-07 salary figure quoted is for the period 1 April 2006 to 4 May 2006, full year equivalent is £39,244. The 05-06 salary figure quoted is for the period 10 May 2005 to 31 March 2006, full year equivalent is £38,854. CETV stated as 'at 31/03/07' is in fact at 4 May 2006.
- ⁸ Salary and pension details can be found in the Departmental resource accounts for 2006-07 of the Foreign and Commonwealth Office.
- ⁹ The 05-06 salary figure quoted is for the period 1 April 2005 to 9 May 2005, full year equivalent is £38,854.
- ¹⁰ The 05-06 salary figure quoted is for the period 1 March 2005 to 9 May 2005, full year equivalent is £38,854.
- ¹¹ Salary and pension details can be found in the Departmental resource accounts for 2006-07 of the Foreign and Commonwealth Office.
- ¹² The 06-07 salary figure quoted is for the period 5 May 2006 to 31 March 2007, full year equivalent is £29,995. CETV stated as 'at 31/03/06' is in fact at 5 May 2006.
- ¹³ Elected not to draw a Ministerial salary and are not members of the Parliamentary Contribution Pension Fund.
- ¹⁴ The 06-07 salary figure quoted is for the period 1 April 2006 to 4 May 2006, full year equivalent is £29,787. The 05-06 salary figure quoted is for the period 10 May 2005 to 31 March 2006, full year equivalent is £29,491. CETV stated as 'at 31/03/07' is in fact at 4 May 2006.
- ¹⁵ The 05-06 salary figure quoted is for the period 1 April 2005 to 9 May 2005, full year equivalent is £29,491.
- ¹⁶ The 06-07 salary figure quoted is for the period 1 April 2006 to 4 May 2006, full year equivalent is £29,787. CETV stated as 'at 31/03/07' is in fact at 4 May 2006.

Salary and pension entitlements for the senior managers of the Department

3.153 The salary and pension entitlements of the most senior members of the Department of Trade and Industry were as follows:

Figure 3.10

2006-07	Accrued pension at age 60 at 31/03/07 and related lump sum	Real increase in pension and related lump sum at age 60	CETV at 31/03/07	CETV at 31/03/06	Real increase in CETV	Salary including performance pay
	£000	£000	£000	£000	£000	£000
Sir Brian Bender	65-70 plus 205-210 lump sum	0-2.5 plus 5-7.5 lump sum	1,504	1,391	48	175-180
John Alty	40-45 plus 120-125 lump sum	2.5-5 plus 7.5-10 lump sum	720	657	44	120-125
Martin Bryant (from 20 November 2006) ¹	0-5	0-2.5	80	70	9	60-65 (165-170 full year equivalent)
Andrew Cahn	35-40	0-2.5	661	611	24	180-185
Mark Clarke (from 5 June 2006) ²	0-5	0-2.5	25	-	22	135-140 (170-175 full year equivalent)
Hilary Douglas (from 18 April 2006) ³	45-50 plus 140-145 lump sum	0-2.5 plus 2.5-5 lump sum	1,034	969	29	130-135 (150-155 full year equivalent)
David Evans (to 17 April 2006) ⁴	45-50 plus 120-125 lump sum	0-2.5	1,042	1,046	1	5-10 (115-120 full year equivalent)
Mark Gibson	45-50 plus 140-145 lump sum	0-2.5 plus 5-7.5 lump sum	959	891	37	135-140
Richard Gillingwater (to 31 August 2006) ⁵	-	-	-	-	-	-
David Hughes (to 16 April 2006) ⁶	25-30	0-2.5	611	595	16	115-120 (150-155 full year equivalent)

¹ CETV stated as 'at 31/03/06' is in fact at 20 November 2006.

² CETV stated as 'at 31/03/06' is in fact at 5 June 2006.

³ CETV stated as 'at 31/03/06' is in fact at 18 April 2006.

⁴ CETV stated as 'at 31/03/07' is in fact at 17 April 2006.

⁵ On secondment from the Cabinet Office. DTI was invoiced for a total amount of £109,602 (£261,369 for the year 05-06) for the use of his services as Chief Executive of Shareholder Executive during the 2006-07 year.

⁶ CETV stated as 'at 31/03/07' is in fact at 16 April 2006.

Figure 3.10 – continued

2006-07	Accrued pension at age 60 at 31/03/07 and related lump sum	Real increase in pension and related lump sum at age 60	CETV at 31/03/07	CETV at 31/03/06	Real increase in CETV	Salary including performance pay
	£000	£000	£000	£000	£000	£000
Anthony Inglese	50–55 plus 150–155 lump sum	0–2.5 plus 5–7.5 lump sum	1,046	968	40	135–140
Professor Sir David King	0–5	0–2.5	64	32	28	155–160
Sir Keith O'Nions	45–50 plus 140–145 lump sum	0–2.5 plus 2.5–5 lump sum	1,069	1,055	21	170–175
Vicky Pryce	5–10 plus 15–20 lump sum	0–2.5 plus 2.5–5 lump sum	128	97	25	165–170
William Rickett	50–55 plus 155–160 lump sum	0–2.5 plus 5–7.5 lump sum	1,061	993	33	145–150

Figure 3.11

2005-06	Accrued pension at age 60 at 31/03/06 and related lump sum	Real increase in pension and related lump sum at age 60	CETV at 31/03/06	CETV at 31/03/05	Real increase in CETV	Salary including performance pay
	£000	£000	£000	£000	£000	£000
Sir Brian Bender (from 3 October 2005) ¹	60–65 plus 190–195 lump sum	0–2.5 plus 5–7.5 lump sum	1,388	1,218	37	65–70 (155–160 full year equivalent)
Dr Catherine Bell (to 31 December 2005) ²	60–65 plus 175–180 lump sum	15–17.5 plus 32.5–35 lump sum	1,276	807	29	115–120 (130–135 full year equivalent)
John Alty (from 5 September 2005) ³	35–40 plus 105–110 lump sum	2.5–5 plus 10–12.5 lump sum	657	527	59	65–70 (115–120 full year equivalent)
Sir Stephen Brown (to 26 December 2005) ⁴	–	–	–	–	–	–
David Evans	45–50 plus 120–125 lump sum	5–7.5 plus 7.5–10 lump sum	1,046	759	41	100–105
Mark Gibson	40–45 plus 130–135 lump sum	0–2.5 plus 5–7.5 lump sum	880	674	35	120–125
Richard Gillingwater ⁵	–	–	–	–	–	–
Stephen Hadrill (to 22 April 2005) ⁶	30–35 plus 95–100 lump sum	0–2.5 plus 0–2.5 lump sum	498	482	1	5–10 (115–120 full year equivalent)
Edmund Hosker (to 5 September 2005) ⁷	30–35 plus 95–100 lump sum	0–2.5 plus 5–7.5 lump sum	510	397	39	45–50 (110–115 full year equivalent)
David Hughes	25–30	2.5–5	574	434	46	175–180
Anthony Inglese	45–50 plus 135–140 lump sum	0–2.5 plus 5–7.5 lump sum	961	741	37	125–130

¹ CETV stated as 'at 31/03/05' is in fact at 3 October 2005.

² Dr Catherine Bell stepped down as acting Permanent Secretary on 2 October 2005. CETV stated as 'at 31/03/06' is in fact at 31 December 2005.

³ CETV at 5 September 2005. CETV stated as 'at 31/03/05' is in fact at 5 September 2005.

⁴ Salary and pension disclosure can be found in the Departmental resource accounts for 2006-07 of the Foreign and Commonwealth Office.

⁵ On secondment from the Cabinet Office. DTI was invoiced for a total amount of £261,369 for the use of his services during the 2005-06 year.

⁶ CETV stated as 'at 31/03/06' is in fact at 22 April 2005.

⁷ Edmund Hosker was acting Director General until 5 September 2005. He is still currently an employee of the Department. CETV stated as 'at 31/03/05' is in fact at 5 September 2005.

Figure 3.11 – continued

2005-06	Accrued pension at age 60 at 31/03/06 and related lump sum	Real increase in pension and related lump sum at age 60	CETV at 31/03/06	CETV at 31/03/05	Real increase in CETV	Salary including performance pay
	£000	£000	£000	£000	£000	£000
Professor Sir David King (from 1 May 2005) ¹	0-5	0-2.5	32	–	28	135-140 (160-165 full year equivalent)
Joan McNaughton (to 5 March 2006)	50-55 plus 150-155 lump sum	0-2.5 plus 5-7.5 lump sum	1,096	849	40	115-120 (120-125 full year equivalent)
Sir Keith O'Nions	40-45 plus 130-135 lump sum	0-2.5 plus 0-5 lump sum	1,055	919	38	165-170
Vicky Pryce	0-5 plus 10-15 lump sum	0-2.5 plus 2.5-5 lump sum	99	56	28	160-165
William Rickett (from 6 March 2006) ²	45-50 plus 145-150 lump sum	0-2.5 plus 0-2.5 lump sum	993	989	2	5-10 (105-110 full year equivalent)
Susan Haird (from 27 December 2005 to 26 March 2006) ³	35-45 plus 115-120 lump sum	0-2.5 plus 2.5-5 lump sum	792	723	31	25-30 (105-110 full year equivalent)
Andrew Cahn (from 27 March 2006)	0-5	0-2.5	–	–	–	0-5 (180-185 full year equivalent)

Notes

- The information relates only to the senior managers of the core Department. Similar information relating to the chief executives and senior managers of the executive agencies and other bodies of the DTI family is given in the separate accounts of those bodies.
- "Salary" includes gross salary; performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation.
- None of the senior managers of the Department received any benefits in kind during the year.

¹ Professor Sir David King joined the Department on 1 May 2005, so there are no prior year CETV figures for his pension.

² CETV stated as 'at 31/03/05' is in fact at 6 March 2006.

³ CETV stated as 'at 31/03/05' is in fact at 26 March 2006. CETV stated as 'at 31/03/06' is in fact at 27 December 2005.

Ministerial pensions

3.154 Pension benefits for Ministers are provided by the Parliamentary Contributory Pension Fund (PCPF). The scheme is statutory based (made under Statutory Instrument SI 1993 No 3253, as amended).

3.155 Those Ministers who are Members of Parliament may also accrue an MP's pension under the PCPF (details of which are not included in this report). The arrangements for Ministers provide benefits on an "average salary" basis with either a 1/50th or 1/40th accrual rate, taking account of all service as a Minister. The accrual rate has been 1/40th since 15 July 2002 (or 5 July 2001 for those that chose to backdate the change) but Ministers, in common with all other employees of the PCPF, can opt to for a 1/50th accrual rate and the lower rate of employee contribution.

3.156 Benefits for Ministers are payable at the same time as MP's benefits become payable under the PCPF or, for those who are not MPs, on retirement from ministerial office from age 65. Pensions are increased annually in line with changes in the Retail Prices Index. Members pay contributions of 6% of their ministerial salary if they have opted for the 1/50th accrual rate. Those members who have opted for the 1/40th accrual rate are required to pay an increased contribution. The rate was increased from 9% to 10% from 1 April 2004. There is also an employer contribution paid by the Exchequer representing the balance of cost. This is currently 26.8% of the ministerial salary.

3.157 The accrued pension quoted is the pension the Minister is entitled to receive when they reach 65, or immediately on ceasing to be an active member of the scheme if they are already 65.

Civil Service Pensions

3.158 Pension benefits are provided through the Civil Service Pension (CSP) arrangements. From 1 October 2002, civil servants may be in one of three statutory based "final salary" defined benefit schemes (classic, premium, and classic plus). The Schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, and classic plus are increased annually in line with changes in the Retail Price Index. New entrants after 1 October 2002 may choose between membership of premium or joining a good quality "money purchase" stakeholder arrangement with a significant employer contribution (partnership pension account).

3.159 Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly in the same way as classic.

3.160 The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a selection of approved products. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement). There were no employer contributions to SCS partnership pension accounts during the year.

3.161 Further details about the CSP arrangements can be found at the website www.civilservice-pensions.gov.uk.

The Cash Equivalent Transfer Value (CETV)

3.162 A CETV is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the CSP arrangements and for which the CS vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real increase in CETV

3.163 This reflects the increase in CETV effectively funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

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Fees paid to Independent Board Members

3.164 Below are the fees paid to the independent members of the Department's Management and Strategy Boards. The total payments for the year to each person were in the following ranges:

Figure 3.12

Independent Member	Fees for 2006-07	Fees for 2005-06
	£000	£000
Dr John Hood ¹	0 – 5	0 – 5
Dr Martin Read ¹	0 – 5	0 – 5
Rana Talwar ¹	0 – 5	0 – 5
Paul Gates ¹	0 – 5	0 – 5
Mair Barnes (to June 2005) ¹	–	5 – 10
Dr Brian Woods-Scawen ²	5 – 10	5 – 10
Mary McAnally (to June 2006) ²	0 – 5	5 – 10
Fields Wicker-Miurin ³	5 – 10	5 – 10
Crawford Gillies ⁴	5 – 10	5 – 10

¹ Fees paid for independent membership of the Strategy Board until the Board was disbanded in September 2006.

² Fees paid for independent membership of the Management Board and ex-officio membership of the Audit and Risk Committee.

³ Fees paid for independent membership of the Management Board and ex-officio Chair of the Investment Committee (the Investment Committee was disbanded in June 2006).

⁴ Fees paid for independent membership of the Management Board and ex-officio Chair of the Audit and Risk Committee.

Senior Civil Service Salaries

3.165 The table below shows the number of senior civil servants in each pay band during the period 2003 – 2006.

Figure 3.13

Pay Range	No. of SCS staff within the range as at 01/04/2003	No. of SCS within the range as at 01/04/2004	No. of SCS within the range as at 01/04/2005	No. of SCS within the range as at 01/04/2006
Below £50,000	0	0	0	0
£50,000–£54,999	13	5	1	0
£55,000–£59,999	23	24	27	28
£60,000–£64,999	29	26	28	23
£65,000–£69,999	40	43	31	22
£70,000–£74,999	41	27	37	27
£75,000–£79,999	17	29	31	24
£80,000–£84,999	12	19	14	20
£85,000–£89,999	12	5	16	12
£90,000–£94,999	16	15	5	2
£95,000–£99,999	6	9	10	10
£100,000–£104,999	3	3	11	11
£105,000–£109,999	1	2	6	7
£110,000–£114,999	4	3	0	2
£115,000–£119,999	1	3	3	1
£120,000–£124,999	1	1	2	1
£125,000–£129,999	1	0	1	2
£130,000–£134,999	1	0	1	1
£135,000–£139,999	0	1	1	0
£140,000–£144,999	1	0	1	1
£145,000–£149,999	1	1	1	1
£150,000–£154,999	0	1	1	0
£155,000–£159,999	0	0	0	0
£160,000–£164,999	0	0	0	1
£165,000–£169,999	0	0	0	0

Note: bonuses are not included and salary ranges represent full time equivalent rates. These pay ranges only cover those staff employed on open-ended contracts.

Brian Bender

Sir Brian Bender KCB
Principal Accounting Officer and Permanent Secretary

12 July 2007

Section 3.8

Health and safety report

3.166 The Department understands and is committed to its responsibility to ensure the health safety and welfare of its staff, contractors and visitors. The Department aims to establish a strong health and safety culture that engages all employees in achieving significant improvements in safety performance. During 2006-07 the Department has continued to improve its performance and has worked with Government Departments and other organisations to help improve overall performance.

3.167 In support of this aim, the Department has focused its attention on the following key initiatives:

- On-line Display Screen Equipment (DSE) training and self-assessment software
- Disability Discrimination Act (DDA) requirements across the Departments London estate
- Asbestos management with specific focus on Kingsgate House, Victoria St.
- The development of a more effective project safety management system, to ensure compliance with new legislation
- The development of a more robust program on the management of contractors
- The provision of working conditions and workplaces that comply with the relevant statutory requirements, approved codes of practice

3.168 The Department's Permanent Secretary is ultimately responsible for health and safety in the Department. For Departmental agencies this responsibility is delegated to agency Chief Executives who are responsible for all health and safety matters in their agency. Chief Executives submit an annual report on health and safety to their agency Steering Boards. For the Department's headquarters, health and safety responsibility is delegated to the Director General, Services Group. The Director General submits an annual report on health and safety covering the Department's headquarters to the Departmental Management Board.

3.169 The HSC guidance, Health and Safety in Annual Reports (2004), has been utilised in the

preparation of this report as the Department believes that the aforementioned publication sets a positive framework for health and safety performance reporting and transparency in relation to risk management and associated internal control mechanisms.

3.170 The Department's health and safety policies and practices are regularly reviewed against those of other Government Departments and the private sector. Accident statistics are collated and benchmarked against data published by the Health and Safety Executive. The Department strongly supports the Government's Revitalising Health and Safety initiative, and strives to ensure that health and safety considerations are properly built into its actions.

3.171 The Department has no fatality or dangerous occurrence as defined under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1996 (RIDDOR), nor been served with any health and safety enforcement notice or convicted of any breach of health and safety law.

3.172 Disability Discrimination Act (DDA) audits were carried out at 1 Victoria St., 10-18 Victoria St., Kingsgate House, 121 Buckingham Palace Rd. and Westfield House. As a result of these audits minor works have been scheduled to ensure full compliance with the DDA. An Asbestos (Type 2) survey was undertaken of Kingsgate House confirming the absence of Asbestos Containing

Materials (ACM's) within the main work areas; some suspected ACM's were detected in plant room areas that will be managed in compliance with current UK legislation. With the focus on the management of contractors and the management of project work significant improvements in safety and safety awareness have been made within these areas. To improve its management of DSE and compliance with current DSE legislation the Department will be implementing an interactive on-line DSE training and self assessment programme, moving away from the manual process currently in use.

Figure 3.14 RIDDOR reportable accidents

	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
Staff	3	2	2	0	1
Contractors	2	0	1	0	2
Rate per 100,000 employees	63	40	75	0	66

Figure 3.15 Non reportable accidents

	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
Staff	94	62	52	39	19
Contractors	15	10	4	9	8
Rate per 100,000 employees	1964	1800	1400	1066	600

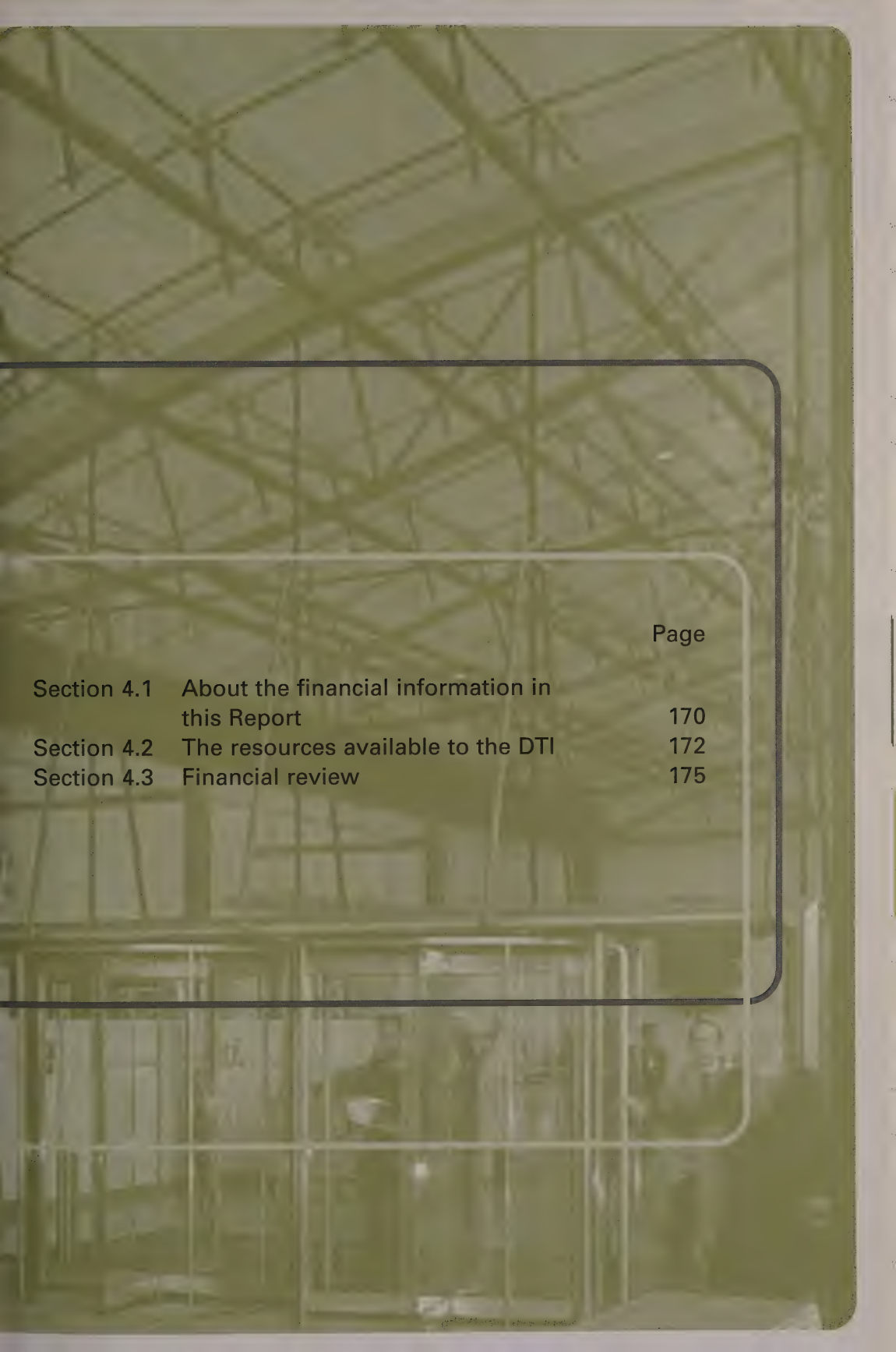
Figure 3.16 Working days lost for reportable and non-reportable accidents

	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
Staff	79	64	54	4	11
Contractors	24	10	5	1	7
Rate per 100,000 employees	1157	1480	1475	111	400

The background of the page is a photograph of a modern building with a glass facade. In the foreground, there is a large, stylized sculpture of a dollar sign (\$). The entire image is overlaid with a semi-transparent olive green filter. The text is white and stands out against this background.

CHAPTER 4

Introduction to the Department's finances



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Section 4.1

About the financial information in this Report

4.1 The financial information in this Report is shown from two different perspectives:

- the budgetary spend of the 'Departmental family' (i.e. the Department and all of its delivery partners as described in section 3.3), and
- the Consolidated Resource Accounts for the core Department and those of its delivery partners that are consolidated in the Resource Accounts.

4.2 The Departmental family delivers on its objectives through its budgets. The Department is ultimately responsible for these resources and the bodies who spend them. These budgets together with supplementary information about them are provided in Chapter 6 of this Report. This sets out the total spend required to deliver the Department's objectives, regardless of which body or bodies within the wider Departmental family manage the spend. What constitutes the Departmental family is set out on pages 125 to 129.

4.3 The Consolidated Resource Accounts in Chapter 5 include only the following bodies:

- the Department;
- the Department's elements of the administration expenditure of UK Trade & Investment, a joint operation of the Department and the Foreign and Commonwealth Office (FCO);
- the Insolvency Service¹, the National Weights and Measures Laboratory and the Small Business Service, which are executive agencies of the Department; and
- The Advisory, Conciliation and Arbitration Service, which is a Crown Executive Non Departmental Public Body (NDPB).

The remaining bodies, which constitute the Departmental family are listed on pages 125 to 129 and are not included in the Consolidated Resource Accounts, apart from the inclusion of cash payments to them, via grant in aid. The income and expenditure of all bodies within the Departmental family is shown in Chapter 6.

¹ The Insolvency Service also receives monies, under the Insolvency Service Act 1986, which are excluded from these accounts because they are subject to a different financial control framework. Under Section 403 of the Act, sums are received from the realisation of assets from bankruptcies and company liquidations. The monies are held by the Secretary of State and interest earned on balances is surrendered to HM Treasury in accordance with Section 405 of the Act. Further details are available in the published accounts of the Insolvency Service which can be obtained from <http://www.insolvency.gov.uk>.

4.4 The 2006-07 Consolidated Resource Accounts can be found on pages 190 to 262. In common with other central Government bodies, the Department's Consolidated Resource Accounts are audited by the National Audit Office on behalf of the Comptroller & Auditor General. Most of the Department's bodies that sit outside of the accounting boundary produce their own annual report and resource accounts; see Section 3.3 for more information.

4.5 Section 4.2 of this Report provides the background to the way in which accounting and budgeting in Government is managed and controlled, and shows how this regime impacts the Department. This is followed by the Department's financial review of the year, which highlights and explains some of the key information in the Consolidated Resource Accounts on the one hand and the section on budgetary spend on the other.

4.6 The 2006-07 audited Consolidated Resource Accounts (i.e. the primary statements and supporting notes) are contained in Chapter 5 of the Report. Information about budgetary expenditure is contained in Chapter 6.

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Section 4.2

The resources available to the Department

4.7 The Department operates within the wider Government financial environment. The resources available to the Department and how it reports on and is held accountable for these resources has to be seen within this environment. This section sets out the broad principles of budgeting and accounting in Government, explains some of the key terms which are used and explains how the Department manages its resources in this context.

The Spending Review process

4.8 The Spending Review (SR) is the process by which the Government sets spending plans, usually for the coming three years. This determines the overall control total, Total Managed Expenditure (TME). TME is made up of two components, the Departmental Expenditure Limit (DEL) and Annually Managed Expenditure (AME). The DEL is set annually within the context of the Department's 3 year SR settlement and AME is set in consultation with HM Treasury through twice yearly reviews. The most recent review, SR 2004, was concluded in 2004 and covered the three-year period 2005-06, 2006-07 and 2007-08. This set the Department's budgets for these periods.

4.9 In July 2005 the Government announced that a Comprehensive Spending Review 2007 (CSR07) would take place. As part of the CSR07 review, the Department has been working closely with HM Treasury. It reached agreement on its administration budgets, in line with the 2006 Pre-Budget Report announcement that administration budgets across departments will be reduced by at least 5% in real terms over the CSR07 period. Early settlement of the 2008-11 science budget was announced in the Chancellor's 2007 Budget which will ensure that total science expenditure will rise on average by 2.7% annually, in real terms over the CSR period. The Department's non-science budget was settled on 27 June 2007.

From budgets to Estimates to accounts

4.10 The following paragraphs explain the process that the Department, in common with other Government departments, goes through to obtain the resources that are ultimately reported on in their Resource Accounts, as well as explaining the differences between budgets, Estimates and the accounts.

The Department's budget

4.11 The Departmental family measures and manages its expenditure through budgets. The Department has two types of budgets which are described below:

- DEL, which the Department can largely control overall, though some elements may be demand-led. It is set annually within the context of the

Department's 3 year financial settlement, as set out in the Spending Review.

- AME, which is demand-led and volatile and therefore difficult to predict. AME budgets are set in consultation with HM Treasury through twice yearly reviews. The majority of the Department's AME expenditure relates to nuclear provisions, coal health liabilities, Royal Mail restructuring costs, the Post Office revolving loan and the Redundancy Payments Service.

4.12 Within DEL and AME there are resource budgets and capital budgets, which are further broken down into administration and programme budgets.

4.13 The Department's DEL budget for 2006-07 was £7,011.4 million (2005-06 £6,950.7 million) and the AME budget amounted to £517 million (2005-06 £25,186.8 million).² Explanations for movements in budgets from year to year are given in Chapter 6.

4.14 Some of the Department's DEL and AME budgets are ring-fenced by HM Treasury. 80% of the 2006-07 DEL was ring-fenced leaving only 20% (£1,388.5 million) available for discretionary allocation by the Department.

4.15 There are also further classifications of expenditure within resource budgets termed 'near cash' and 'non cash'. Near cash items are transactions that result in real cash flows in the near future (accruals based) e.g. pay costs, purchases and grants. Importantly it also includes cash expenditure against provisions (e.g. spend to reduce coal health liabilities).

4.16 Non cash items are components of departments' budgets that are included to reflect the full economic cost of activities and the usage of long-term assets. Non cash items include depreciation, cost of capital, profit or loss on disposal of balance sheet assets and changes in provisions.

4.17 The Department is responsible for all of the resources available to the Departmental family. In order to meet this responsibility the Department has put in place a strong budgetary control process.

4.18 The Department allocates budgets in March of each year and monitors them on a monthly basis. Forecasts of expenditure are reviewed monthly and updated where appropriate. More in-depth reviews of forecasts are carried out quarterly with particular emphasis on end December reviews (as these are used by HM Treasury as a basis for total spend across Government for the year) and end February reviews (to identify changes to be made through the Spring Supplementary Estimate). Updated information is then reported at corporate level through the Department's financials which are presented to the Management Board monthly by the Finance Director.

4.19 Budgets are usually amended via the Winter and Spring Supplementary Estimates. Monthly budget monitoring helps to inform this process although formal commissioning also takes place to gather full information on required changes. Changes in Estimates impact the budgets directly with the exception of the NDPBs, as the Estimates only reflect the grant in aid (cash) paid to these bodies. The actual expenditure and income of these NDPBs is treated as non-voted

² Includes £24,300 million increase in provisions for the nuclear liabilities of the NDA.

(i.e. not voted by Parliament, as only the cash payments made to these bodies are voted) and appears by way of a note in the Estimates.³ A formal process ensures that any required changes are captured. The Supplementary Estimates include gaining access to funding from utilisation of end year flexibility which arises due to savings achieved in previous years.

The Estimates process

4.20 Having set its budgets the Department has to request resources from Parliament annually in order to formally fund the delivery of its objectives. Main Estimates are the means by which departments seek parliamentary authority for their spending each year.

4.21 The Estimates are made up of DEL, AME and 'non-budget' requests i.e. transactions which do not count as budgets due to their classification. The DEL and AME relate to requests for expenditure and income recorded in the Statement of Parliamentary Supply on page 202 of the Consolidated Resource Accounts. The non-budget requests largely relate to grant in aid (cash paid) which the Department uses to fund its NDPBs.

4.22 In the context of the Estimates and Consolidated Resource Accounts, the funding voted to Departments for their NDPBs is only for the grant in aid payments made to them.

4.23 The Government seeks approval from Parliament for its Main Estimates for the year in April or May. Supplementary Estimates can then be submitted in the summer, winter and spring. The Estimates follow a standard format, with one or more Requests for Resources (RfR), which set a limit on the resources required for each main Departmental activity, a request for capital funding and a Net Cash Requirement (NCR), which represents the actual cash flowing out of the Exchequer in order to fund the Department's activities.

4.24 Each RfR is accompanied by a formal description (ambit) of the services to be financed under it. Money voted by Parliament should be used to finance services that fall within the ambit of the RfR.

The accounts

4.25 The Department's total expenditure is covered by two RfRs and these are reported on in its Consolidated Resource Accounts:

- RfR1 – increasing UK competitiveness; and
- RfR2 – increasing scientific excellence in the UK and maximising its contribution to society.

4.26 It also has a separate Estimate and RfR for the effective management of the UKAEA pension schemes. Copies of the UKAEA Pension Accounts are available at www.ukaeapensions.org.uk.

4.27 At the end of the year the Department is required to report actual expenditure against Estimates in its Consolidated Resource Accounts.

³ Details of the Estimates can be found on the HM Treasury website at <http://www.hm-treasury.gsi.gov.uk>

Section 4.3

Financial Review

4.28 This section reviews the Department's financials for 2006-07. It covers both the performance of the consolidated Department in the context of the Resource Accounts, and how the Department has performed compared to the final Estimate.

Reconciling Estimates, accounts and budgets

4.29 As explained earlier, adjustments are required to reconcile the different types of resources included in the Department's Estimates, accounts and budgets. The table below includes the following reconciliations:

- Estimates to accounts – how the Net Resource Outturn (voted by Parliament), shown in the Statement of Parliamentary Supply on page 202 is reconciled to the Net Operating Cost which is shown in the Operating Cost Statement in the Accounts on page 203; and
- Accounts to budgets – how the Net Operating Cost is reconciled to the Resource Budget Outturn shown in Chapter 6 on page 274.

Estimates to accounts

4.30 The Department's Estimate is reconciled to the Net Operating Cost through two adjustments. The first adjustment requires the inclusion of expenditure not formally approved by Parliament in the Supply Estimates.⁴ For the Department, this is a combination of National Insurance Fund expenditure, the cost of capital credit on the net liabilities of Royal Mail Holdings plc and the cost of capital charge on the net assets of BNFL plc. Further details are provided in Note 3 to the Accounts. The second adjustment requires the inclusion of Consolidated Fund Extra Receipts (CFERs) which are classified as operating income and therefore included in Net Operating Cost. These CFERs arise from the operating activities of the Department, but are not used by the Department and are not classified as income for Estimates purposes i.e. not included in Net Resource Outturn. The receipts are paid directly to HM Treasury.

Accounts to budgets

4.31 The Net Operating Cost of the Department in the reporting period is reconciled to the Department's budget through the removal of cash payments to the Department's NDPBs (mainly grant in aid), adjusting for capital grants; and the inclusion of the NDPBs' income and expenditure on an accruals basis (resource consumption). A further adjustment is made to eliminate those CFERs that are classed as being outside of the budgeting boundary.

⁴ House of Commons paper 293 (06/07)

Figure 4.1

	2006-07	2005-06
	£'000	£'000
Net Resource Outturn (Estimates)¹	6,111,241	5,847,974
Adjustments in respect of:		
Non-Supply expenditure in the Operating Cost Statement (OCS) ²	3,563	252,733
Consolidated Fund Extra Receipts (CFERs) in the OCS ²	(1,848,720)	(456,727)
Net Operating Cost (Accounts)³	4,266,084	5,643,980
Adjustments in respect of:		
Capital grants ⁴	399,291	300,797
Voted expenditure outside the budget ⁵	(6,506,721)	(6,239,874)
Adjustments to additionally include:		
Other CFERs	1,821,212	61,440
Resource Consumption of Non-Departmental Public Bodies ⁶	5,740,123	5,419,477
Other adjustments ⁷	(12,212)	1,067
Resource Budget Outturn (Budget)⁸	5,707,777	5,186,887
Of which:		
Departmental Expenditure Limits (DEL) ⁹	5,505,330	5,086,102
Annually Managed Expenditure (AME)	202,447	100,785

Notes

¹ Disclosed in the Statement of Parliamentary Supply on page 202 of the Accounts.

² See Note 3 to the Accounts on page 216.

³ Disclosed in the Operating Cost Statement on page 203 of the Accounts.

⁴ Where capital receipts are greater than expenditure the adjustment will be positive.

⁵ Mainly grant in aid payments to NDPBs.

⁶ Income and expenditure of NDPBs.

⁷ For 2006-07 other adjustments mainly relate to adjustments to the Resource Account made after the submission of budget outturns to meet the deadline for the Public Expenditure Outturn White Paper.

⁸ Total DTI Resource AME outturns as shown in Chapter 6 Table 2, is £441 million. This includes £239 million in respect of the UKAEA Superannuation Fund, the accounts of which are published separately.

⁹ See table 2 in Section 6.3.

The Primary Statements in the Consolidated Resource Accounts

4.32 The primary statements in the Consolidated Resource Accounts comprise: the Statement of Parliamentary Supply; the Operating Cost Statement; the Statement of Recognised Gains and Losses; the Balance Sheet; the Consolidated Cash Flow Statement; and the Consolidated Statement of Operating Costs by Departmental Aim and Objectives.

Statement of Parliamentary Supply

4.33 This is the accountability statement for parliamentary reporting purposes. It records the net resource outturn compared to Estimate and only includes expenditure and income (Appropriations in Aid) allowable against the Estimate. Explanation of why the outturn in 2006-07 was different from the Estimate is given in paragraph 4.36. This statement also includes a comparison of non-operating cost Appropriations in Aid with the amount voted by Parliament in the Estimate, and discloses amounts payable to the Consolidated Fund as Extra Receipts (CFERs).

4.34 Non-operating Cost Appropriations in Aid reduced by £6.6 billion, from £15.2 billion in 2005-06 to £8.6 billion due to a reduction in loan repayments on the Post Office revolving loan.

4.35 CFERs increased by more than £5 billion due to a special dividend received from BNFL plc, the repayment of the BNFL debenture; and liquidation of the Nuclear Liabilities Investment Portfolio (NLIP). Further details can be found in Notes 16, 19 and 21 to the Accounts.

4.36 Net resource outturn for 2006-07 (as shown in the Statement of Parliamentary Supply) was £6,111 million. This is broadly similar to the outturn for 2005-06 of £5,848 million, which was restated to account for Machinery of Government (MoG) changes. This compares to a final Estimate of £6,824 million, giving an underspend of £713 million. The significant reasons (where the variance is greater than 10%) for the difference of £713 million between Estimate and outturn are as follows:

- Net expenditure on Extending Competitive Markets was £10 million (13%) less than the Estimate largely as a result of a lower than expected requirement for grant in aid for the consumer competition NDPBs, as a result of tighter cost controls together with higher than expected income levels. Additionally expenditure on other consumer support and competition policy programmes was lower than anticipated.
- Sustainability and the Environment net expenditure was £32 million (30%) lower than the Estimate. The variance was mainly due to changes in the timing of the payments of capital grants for sustainable energy projects, including those in respect of carbon abatement technologies. Additionally, the Supply Estimate made available capital grant funding for smart metering schemes, which proved not to be required because of the nature of the expenditure actually incurred.
- Enterprise Growth and Business Investment net expenditure was around £49 million (33%) less than the Estimated spend. The principal reason was a lower than anticipated number of applications for new loans under the Small Firms Loan Guarantee Scheme (SFLGS).
- The significantly lower than expected net expenditure on Regional Economies of around £157 million (82%) was mainly due to a reduced requirement for grant in aid for the Regional Development Agencies together with a slippage in Regional Selective Assistance capital grants.
- There was a £10 million (24%) under spend on Trade and Investment during the year. This reflects the fact that UKTI's restructuring was effected more quickly than anticipated, with the result that greater savings were realised in the current year.
- Net expenditure on Maximising Potential in the Workplace was £38 million (35%) less than estimated. This was largely due to lower than anticipated expenditure on contributions to the Inland Revenue in respect of paternity and adoption payments, as a direct result of a lower than expected take up of paternity payments and delays in the introduction of some adoption payments.

- There was lower than expected net expenditure on Corporate Activity and the Insolvency Framework, which amounted to £15 million (25%). The variance was due to an under spend by the Insolvency Service, partly as a result of additional fee income.
- There was a £322 million (17%) under spend on the Department's Assets and Liabilities during the reporting period. This was largely due to the reduced grant in aid requirement of the Nuclear Decommissioning Authority (NDA), as a result of utilisation of existing cash reserves, and a rigorous cost control exercise resulting in deferring some spend to 2007-08 and re-prioritising and re-phasing other activities. This also led to a shortfall in income against Estimate, which mitigated the variance to some extent. The non cash costs associated with Coal Health provisions were also lower than anticipated.
- The lower than expected outturn for Nuclear Security and Export Control which amounted to nearly £7 million (11%) arose due to slippage in expenditure on nuclear support to the former Soviet Union, and reduced grant in aid requirements of the Civil Nuclear Police Authority.
- There was a lower than expected requirement for expenditure for Activities in Support of all Objectives. The under spend of approximately £65 million (21%) arose mainly as a result of savings on accommodation costs and the costs of IT services, and greater than anticipated savings on restructuring costs. The expenditure for the year also includes a cost of capital credit in respect of working capital balances, for which no provision was made in the Estimate.
- The variance relating to Office of Science and Innovation initiatives of £2 million (23%) was mainly due to slippage in new science reviews and international partnership projects, and in the late adoption of framework programmes during the reporting period.

Operating Cost Statement

4.37 The Operating Cost Statement is similar to an income and expenditure Account in not-for-profit bodies and includes all operating income and expenditure relating to the consolidated bodies on an accruals accounting basis, including that which sits outside of the Estimate. Apart from the additional income arising from the receipt of a special dividend from BNFL plc (£1,800 million), the consolidated net operating cost for the reporting period of £4,266 million is broadly similar to the consolidated restated net operating cost for 2005-06 (£5,644 million).

4.38 The differences between net operating cost and net resource outturn are disclosed in Note 3 to the accounts. The main differences relate to expenditure for the redundancy payments payable from the National Insurance Fund, the cost of capital credit on the net liabilities of Royal Mail Holdings plc; the cost of capital charge on the net assets of BNFL plc which are not included in the Estimates; and income payable to the Consolidated Fund for a special dividend from BNFL plc.

4.39 Operating income includes dividends declared by Companies House and the Patent Office. These dividends represent the return on investment of Public

Dividend Capital (PDC), as shown in Note 16 of the accounts. The Companies House dividend is expected to be £2 million, representing a return of 3.5% on the Companies House average capital employed. The Patent Office dividend is expected to be £2.8 million representing a return of 4% of the Patent Office's average capital employed.

4.40 Grant in aid and other grants represented nearly 91% of gross expenditure for programmes in 2006-07.

Statement of Recognised Gains and Losses

4.41 This statement reflects the unrealised element of revaluations to fixed assets and investments. These gains have not been reflected in the Operating Cost Statement. The large gain on investments is mainly due to gains on the coal pension investment reserves.

Balance Sheet

4.42 The Balance Sheet discloses the assets and liabilities of the Department at the balance sheet date. The main changes in the Department's assets and liabilities during the year are described below. The Department had Total Net Liabilities of (£203 million) in 2005-06. This has changed to a position of Total Net Assets of £2,407 million, a net increase in asset value of £2,610 million. The main reasons for this change relate to the increase in the valuation of Coal Pension Investments (£1,286 million), following the Government Actuary Department (GAD) triennial valuations and subsequent releases from the Guaranteed Fund; an increase in the Department's investments in Royal Mail Holdings plc (£430 million), and a net reduction in provisions (£769 million). More detail is set out below and in the notes to the Accounts.

4.43 There have been a number of disposals of assets in-year. The most significant disposals were the liquidation of the Nuclear Liability Investment Portfolio and the repayment of the BNFL Debenture. These movements were matched by a corresponding reduction in liabilities to the Consolidated Fund. These movements in aggregate therefore have a net nil effect. Further information can be found in paragraphs 45-47, below and in Notes 16 and 19 of the Accounts.

4.44 Tangible fixed assets increased by £26 million reflecting a small reduction in the assets of the Department's agencies and a £31 million increase in assets in the core Department. Increases in the core Department's assets resulted from an increase in assets under construction including additional work on the National Physical laboratory, improvements to buildings on the Departmental estate and spend on major IT projects.

Nuclear Liabilities Investment Portfolio (NLIP)

4.45 Following the transfer of the responsibility for the discharge of the nuclear liabilities to the NDA, the Nuclear Liabilities Investment Portfolio and the Springfield Investments (known together as the NLIP) passed to the Government. The investment was remitted to the Secretary of State for Trade and Industry and returned to the Consolidated Fund once sold. The market valuation of the NLIP, as at 31 March 2006, was £3,706 million. The portfolio was fully liquidated as at 31

March 2007. The amount realised from the sale during 2006-07 was £3,767 million and all proceeds were surrendered to the Consolidated Fund.

BNFL Debenture and Special Dividend

4.46 On 1 April 2005, BNFL issued a debenture for £575 million to the Secretary of State for Trade and Industry, under Schedule 6 of the Energy Act. Although the final redemption date was not until 31 March 2012, BNFL repaid £19 million of its debenture plus interest in May 2006, a further £8 million was repaid in September 2006 and, following the sale of its Westinghouse subsidiary in October 2006, the remaining balance of £523 million was repaid. The BNFL debenture provided a mechanism for returning the proceeds of disposals from the BNFL Group to the Government and incentivised its management to maximize cash generation and reduce the outstanding amount of the debenture, so reducing the Group's interest payments.

4.47 Westinghouse, the power station construction arm of BNFL, was sold to Toshiba in February 2007. The Department received £1.8 billion, by way of special dividend, from BNFL on 19 February 2007. This dividend payment is treated as operating income in the Department's Accounts and the cash was paid to the Consolidated Fund.

Royal Mail Holdings Plc

4.48 Royal Mail Holdings plc is a company that is wholly owned by Government. Its core operating subsidiary is Royal Mail Group Limited (mails business). Post Office Limited (POL) is the subsidiary of the Group that provides the post office network arm of the business. The Government has provided financial support to the Royal Mail Group of companies via three different routes – equity injection, debt financing and subsidy payment.

Equity injection

4.49 Further investments into Royal Mail were made by the Department during the year when the Department purchased 5 shares at a total cost of £430.27 million increasing the equity from £0.05 million to £430.32 million. The primary purpose of this was to inject funds into POL as part of the 2002-03 POL funding agreement, approved by the EU Commission.

Debt financing

4.50 On 6 February 2001 Royal Mail utilised a £500 million National Loans Fund (NLF) loan facility that was made available to it, to assist with the company's acquisitions which included German Parcel. The facility comprises 20 separate tranches of £25 million each, the first tranches of which do not begin to mature until 20 March 2021. Therefore the outstanding balance for this NLF loan on 31 March 2007 remains at the full £500 million. Royal Mail makes bi-annual interest payments on the loan amounting to £29.17 million per annum.

4.51 At the end of 2002, the Government agreed a financing package with the Royal Mail mails business. This package initially comprised £1,044 million of debt finance from Government (subsequently reducing to £844 million) on commercial terms to provide Royal Mail with access to funds to assist it in delivering its 3 year restructuring programme for the mails business.

4.52 On 26 March 2007 the Secretary Of State confirmed via written statement to Parliament finalisation of a new financing framework for Royal Mail. Part of this framework includes new debt facilities of £900 million to be provided by the NLF on commercial terms (comprising a revolving facility of up to £300 million and a separate facility of up to £600 million). This new package replaces and increases the current package agreed in 2002 (for borrowing facilities of £844 million) and these debt facilities are further supplemented by a £300 million shareholder loan, also to be provided on commercial terms. The agreed package will allow the company to embark on an investment programme so that it can further transform its effectiveness and secure the efficiency improvements required under the latest regulatory settlement. The new debt facilities became effective from 23 March 2007, but had not been utilised before 31 March 2007.

4.53 The Department has also made available to POL, through an agreement reached on 17 October 2003, a revolving loan facility based on commercial terms of up to £1.15 billion. This is to help the company fund its working capital requirements in light of the migration of state benefits to a system of direct payment and the loss of pre-funding to POL from the Department of Work and Pensions, alongside a Government commitment that benefit recipients will still be able to collect their benefit, in cash and in full, from Post Office branches. POL began utilising this facility on 1 December 2003. The facility matures on 31 March 2010 by when any outstanding amounts will need to have been repaid. The outstanding balance as at 31 March 2007 was £400 million.

Subsidy payment

4.54 In October 2002 the Department secured Parliamentary approval for funding of up to £210 million for POL's Urban Network Reinvention Scheme, to implement its programme to restructure the network of urban sub-post offices. Funding is provided under Section 8 of the Industrial Development Act 1982 and the scheme, which is administered by POL, is UK-wide and applicable only to urban offices located in communities of more than 10,000 inhabitants. To date a total of £182.9 million has been provided by Government (£4.1 million in 2006-07) funding almost 4,000 grants and enabling 2,486 closures. The Department will monitor the take up of residual investment grant funding. There is no set end date for the scheme, though it is now expected that any remaining funds will not be made available beyond 2007-08.

4.55 From 2003-04 the Government made available a subsidy known as the Social Network Payment, aimed at supporting the provision of rural post offices by helping to cover POL's costs of keeping open non-commercial branches. This funding arrangement has received State Aid approval up until the end of 2007-08 and in recent years the required payments have been at an annual level of £150 million. On 17 May 2007, the Government published its response to a recent consultation on any new arrangements to be applied beyond 2007-08.

European Commission state aid investigation

4.56 The European Commission will be examining some aspects of the support package provided by the Government to Royal Mail, to determine whether they constitute state subsidies or whether they meet 'market investor' conditions. Broadly speaking, provision of funding on terms which would be acceptable to a

private investor operating in a market economy is not considered to be state aid. The Department is clear that it has taken appropriate steps to ensure that all areas under examination represent funding on commercial terms.

Coal Pension Investment Reserve

4.57 The Investment Reserves are Government assets held within the closed coal pension schemes. There are two schemes, the British Coal Staff Superannuation Scheme and the Mineworkers Pension Scheme (BCSSS and MPS). As part of coal privatisation the Government guaranteed members' pension entitlements. The coal pension schemes themselves are currently fully funded. The investment reserves exist as a guarantee for the Government in case this situation were to change.

4.58 If the funds do fall into deficit then the Government pays money into the funds from the investment reserves to make this up. If, at a future point in time the funds then return to surplus then these monies lent to the funds must be repaid to the investment reserves (together with any capital gain made on the funds in this time).

4.59 When the previous triennial actuarial valuations of the schemes were carried out in 2002 and 2003 for BCSSS and MPS the schemes were in deficit. The Government consequently lent the schemes £575 million to cover these deficits. Both the funds have received their updated triennial valuation in 2006-07 and following the recovery in the global equity values the schemes are in surplus and the Government can be paid back its loan (together with the capital gain on it in that time). The repayment received in 2006-07 was £970 million.

4.60 When the guarantee was negotiated in 1994, the Government agreed to leave the Investment Reserves in these pension schemes until at least 2019 on the basis that they would be gradually drawn down to nil over the period, with withdrawals likely to be weighted towards the second half of the 25 year period. Any withdrawals are at the discretion of GAD, which acts as the scheme actuary.

4.61 Further detail on the investments and the pension scheme accounts can be found in Note 16 to the accounts.

4.62 In return for acting as guarantor on the schemes the Government is entitled to 50% of any surplus made on the funds from which the guaranteed pensions are paid. This money is held in a separate fund and is released over a 10 year period. In 2006-07 the fund increased by £679.2 million through a combination of transfers from the Guaranteed Fund and the revaluation of existing funds. £569 million was released to the Guarantor. Further details on these funds can be found in Note 19 to the accounts.

Coal Provisions

4.63 The liabilities of British Coal transferred to the Department on 1 January 1998 (under the terms of the Coal Industry Act 1994). There are two schemes to compensate coal miners and their families in relation to respiratory disease (chronic obstructive pulmonary disease) and Vibration White Finger (VWF). The liabilities in relation to these provisions as at 31 March 2007 were £682 million and £273 million respectively. The schemes are now closed to new claimants. Around 762,000 claimants have been registered in both schemes.

4.64 Coal provisions reduced by £688 million, mainly due to a reduction in the chronic obstructive pulmonary disease (COPD) provision of £527 million due to payments of claims totalling £522 million and a small decrease in the provision based on the model used to predict future cash flows. This scheme closed in 2004. With the exception of concessionary fuel which increased by £53 million all other coal provisions have decreased.

4.65 Handling agreements for the two schemes were negotiated with a group of solicitors (for each disease) who were the chosen representatives for the large numbers of firms involved. The agreements are necessarily complex as they define exactly how claims will be dealt with by claimants' solicitors, the Department's claims handlers, the medical assessors etc. They specify the compensation a claimant would have expected to get if he had pursued his claim under common law through the courts. They give claimants a fair entitlement tailored to reflect their disability. They are not flat rate schemes and reflect other factors set out in the Court judgements.

4.66 Additionally there is a further health provision, which incorporates other injury-related compensation claims such as deafness, accidents and miscellaneous diseases. This also covers payments under British Coal's Pneumoconiosis Compensation Scheme and associated administration costs of managing the health claims. The value of the provision as at 31 March 2007 was £181 million.

4.67 Apart from the health provisions, the Department has a responsibility to provide either solid fuel or a cash alternative to over 102,000 beneficiaries. Approximately three quarters of these have opted for the cash alternative which is index-linked to fuel and light prices. The value of the provision as at 31 March 2007 is estimated to be £405 million; payments in the year amounted to £47 million.

Other provisions

4.68 Other provisions (SFLG, UKAEA restructuring, Early Retirement and British Shipbuilders), have reduced by £49 million, mainly due to the change in the SFLG, where volumes of loans fell significantly during 2006-07.

Revaluation reserve

4.69 The revaluation reserve, which records gains/losses on revaluation of assets in the period, shows a £1.3 billion increase; largely due to gains arising in the year on coal pensions. This was primarily due to the results of the 2005-06 triennial actuarial valuations of the two schemes, BCSSS and the MPS, which were completed in September 2006 and February 2007 and which revealed substantial surpluses.

Cash Flow Statement

4.70 The Department also has to estimate how much cash it is going to need in the year – the Net Cash Requirement. The Net Cash required to fund the Department's activities during 2006-07, as shown in Note 27 to the Cash Flow Statement, amounted to £7,375 million compared to an Estimate of £8,890 million, an underspend of £1,515 million.

4.71 Explanations for significant variances (+/-10%) between actual (outturn) and Estimate Net Cash Requirement are as follows:

- Capital investments were £4,004 million (31%) less than anticipated because the Estimate provided for the maximum permissible gross borrowing (at £12,990 million) by the Royal Mail under its working capital facility. Outturns at £8,590 million were much lower than this limit. This was also the reason why Non-operating Appropriations in Aid (A in A) investments were £3,320 million (28%) lower than anticipated.
- Non-cash items. The variance reflects a larger movement in British Energy provisions than was anticipated in Estimates. Additionally, the Insolvency Service wrote off a balance of £12 million in respect of irrecoverable case administration fee income; and there was a larger cost of capital credit due to the charge on the net assets/liabilities of the public corporations. These were offset to some extent by lower than anticipated rises in the SFLG and Coal Health provisions.
- Changes in working capital and changes in creditors falling due within one year resulted in a greater movement than anticipated of £56 million. This was mainly due to an increase in debtors and prepayments, after taking out the movement in creditors relating to the liquidation of the NLIP and the repayment of the BNFL debenture, the proceeds of which were paid to the Consolidated Fund.
- Use of provisions. The variance is primarily due to lower than anticipated spend on coal health provisions, where claims were paid at a lower rate than originally anticipated owing to the volume and complexity of claims received.

Statement of Operating Cost by Departmental Aim and Objectives

4.72 The Statement of Operating Costs by Departmental Aim and Objectives shows how resources, as set out in the Operating Cost Statement, have been deployed to each of the Department's objectives.

Other information

Restatement of prior year comparatives

4.73 In accordance with the HM Treasury Financial Reporting Manual (FReM), where functions are transferred between Government Departments they are accounted for using merger accounting. Prior-year comparative figures are restated to reflect this. The 2005-06 transactions and balances in these accounts have been restated to reflect the transfer of the Employment Tribunal Service (ETS) to the Ministry of Justice, to become part of the new Tribunals Service; the transfer of the Engineering Inspectorate Directorate to the Health and Safety Executive, part of the Department for Work and Pensions; the transfer of the Equal Opportunities Commission and Women and Equality Unit, to the Department for Communities and Local Government; and the transfer of the Social Enterprise Unit to the Cabinet Office.

Risks and uncertainties that might affect the Department's long-term position

4.74 The Management Board reviews each month the Department's principal risks that might impact on the organisation's position either in the immediate or long-term future. During the year these risks have included:

- potential major company failures;
- security of energy supply;
- better regulation;
- UK energy policy;
- science and innovation funding;
- Royal Mail;
- Nuclear Decommissioning Authority;
- Companies Act implementation;
- budget funding;
- the implications of Machinery of Government (MoG) changes.

The policy for managing risks is outlined in the Department's Statement on Internal Control on pages 194 to 198.

Liquidity and currency risks

4.75 The Department has no borrowings and relies primarily on voted funds from Parliament for its cash requirements. It is therefore not exposed to liquidity risk. It has no material deposits so it is not exposed to interest rate risk and all material assets and liabilities are denominated in sterling so it is not exposed to material currency risk. Further disclosures are provided in Note 33 to these accounts.

Pension liabilities

4.76 The Department's staff can become members of the Principal Civil Service Pension Scheme (PCSPS). The Department's employer's contributions into the scheme are reflected in the Resource Accounts within staff costs.

4.77 The PCSPS is an unfunded multi-employer defined benefit scheme and the Department is consequently unable to identify its share of the underlying assets and liabilities. There is therefore no reflection of the scheme on the Department's Balance Sheet. Further details can be found in Note 9 to the accounts.

Payment of suppliers

4.78 The Department's policy is to comply with the Better Payment Practice Code, which includes the Late Payments of Commercial Debts (Interest) Act 1988. The Department's standard terms and conditions for the supply of goods or services specify payment within 30 days, or other agreed credit terms, of receipt of goods or services or a valid invoice, whichever is the later. In 2006-07, the core Department paid 98.3% of undisputed invoices within the 30 days (93.9% in 2005-06) and is currently working with relevant staff and suppliers to improve this rate. The consolidated Department paid 98.1% of undisputed invoices within 30 days (95.7% in 2005-06).

4.79 During 2006-07 the Department paid a total of £1,139 (2005-06 £4,054) to suppliers for the late payment of invoices.

Post balance sheet events

Sale of British Energy interests

4.80 On 1 June 2007 the Nuclear Liabilities Fund (NLF), a Central Government body, in which the Department has an interest, but which is not consolidated in the Accounts (as it is outside the accounting boundary), converted and sold 450 million shares in British Energy Group plc (BE) at £5.20 per share realising £2.3 billion, reducing the NLF's interest in BE from 64% to 36%. The Department estimates that the contingent asset disclosed on page 254 to the accounts has increased to £2.6 billion as a result of this transaction. The increase in the contingent asset is principally driven by the value of BE shares which increased between the year end and the date of sale.

4.81 The Department's Interest in British Energy arises from its relationship with the NLF. The NLF is considered to be a 100% subsidiary of the Department and BE is a 64% quasi-subsidary of NLF and hence the Department. In accordance with the FRoM, these bodies are not consolidated into the Departmental Resource Accounts, but information on the assets and liabilities, and results, of the two bodies is provided in Note 16. BE makes contributions into the NLF to meet future decommissioning and uncontracted liabilities costs. One of these contributions is referred to as the cash sweep payment. During 2006-07, its inflows included 65% of the free cash from BE (cash sweep) plus returns on its investments. Its liabilities are the estimated, discounted costs of decommissioning.

Technology Strategy Board

4.82 The March 2006 Budget stated that the advisory Technology Strategy Board (TSB) would be given a wider remit to stimulate business innovation in those areas that offered the greatest scope for boosting growth and productivity, and that it should be set up at arm's length to the Government. In November 2006, the Secretary of State announced that the new TSB would be an executive NDPB, based in Swindon.

4.83 Following debates in both Houses of Parliament, an Order in Council establishing the TSB under the Science and Technology Act was approved by the Privy Council in February 2007, and the Royal Charter incorporating the body was printed and sealed on 27 March 2007. The new body was formed on 2 July 2007.

The Science and Technology Facilities Council

4.84 The Science and Technology Facilities Council (STFC), a new research council resulting from the merger of the Particle Physics and Astronomy Research Councils (PPARC) and the Council for the Central Laboratory of the Research Council (CCLRC), was formed by Royal Charter, with NDPB status, on 1 April 2007.

Post Office Network Support

4.85 On 14 December 2006 the Department launched a 12 week national consultation on proposals for the future of the Post Office network. The consultation closed on 8 March 2007 having attracted some 2,500 responses. The Department published its response on 17 May 2007 announcing investment of up to £1.7 billion, subject to EC State Aid clearance; the compensated closure of a maximum of 2,500 branches, partly offset by 500 new Outreach sites; and the introduction of minimum access criteria. The Government's package is aimed at maintaining a national network and placing it on a sustainable footing for the longer term.

Small Business Service

4.86 The Secretary of State announced in Parliament in October 2006 that the Small Business Service (SBS) would become a smaller, sharply focused policy unit with close links with business and with other parts of Government. The SBS would no longer deliver services. Wherever possible, support programmes would be run by its delivery partners close to customers, regionally or locally. SBS would no longer need the status of being an executive agency. In April 2007 it started operating as a policy unit within the Department's Enterprise and Business Group.

Machinery of Government changes

4.87 Following an announcement by the Prime Minister on 28 June 2007 about the way Government is organised, the Department ceased to operate as the DTI. The Department for Business, Enterprise and Regulatory Reform (BERR) was created. The successor Department will assume much of the work of the DTI. At the same time the Department for Innovation, Universities and Skills was established, which will take forward the science and innovation aspects of the DTI's work. These changes also resulted in changes to Ministerial responsibilities.

Auditors

4.88 These financial statements have been audited, under the Government Resources and Accounts Act 2000, by the Comptroller and Auditor General (C&AG), who is appointed under statute and reports to Parliament. The audit opinion is on pages 199 to 201. The notional cost to the Department of the external audit of the core account by the National Audit Office for the C&AG was £266,000 (2005-06 – £242,000). The total cost of work on the Consolidated Account was £348,000 (2005-06 – £343,000).

4.89 The NAO also completed other work relating to the core Department's activities. The main areas of work where subsequent reports were published by the Public Accounts Committee during 2006-07 or subsequently were as follows:

- The Closure of MG Rover report noted that the collapse of MG Rover cost the taxpayer some £270 million. The Department responded effectively where it had contingency plans, for example arranging the immediate support for former employees following the collapse, but needed to strengthen its approach on some other aspects. The various bodies did well to respond quickly and effectively in the immediate aftermath of the company collapse (PAC Report HC 1003 issued 25 July 2006).

- The Small Business Service (SBS) report noted that the Service is being reformed as a smaller policy unit within the Department. It found that the Government's support network of around 3,000 national, regional and local programmes was too large and complex and noted the Government's intention to cut the number to fewer than 100. It found that the SBS, and the Government as a whole, had not been able to evaluate fully enough its impact against Government aims and objectives for the sector (PAC Report HC 262 issued 6 February 2007).
- The termination of the PFI Contract for the National Physical Laboratory report found that the Department handled the termination of the contract well but noted that the project had incurred extra costs of some £10 million, plus a delay of five years or more. The Department too readily assumed that the winning bidder would be able to meet the exceptionally demanding specification for this state-of-the-art scientific facility. The report recommended that public sector clients should always satisfy themselves that contractors have the technical and financial capacity to handle the degree of project risk which they undertake to bear (PAC Report HC 359 issued 27 February 2007).

4.90 During 2006-07, and subsequently the NAO also published reports on:

- Big science: public investment in large scientific facilities, published in January 2007. The C&AG found current planning and delivery arrangements should yield a significant contribution to development of the nation's scientific infrastructure. However some project teams have underestimated the likely running costs of facilities, and the economic potential of facilities was less fully analysed than scientific opportunities.
- The Shareholder Executive and Public Sector Business, published in February 2007. The C&AG concluded that the Shareholder Executive had improved Government's performance as owner of public businesses and was already providing some real financial gains for the public sector. However, increasing the Executive's powers, such as expanding its remit to cover all public sector businesses and giving it greater independence, could enhance its future effectiveness.

4.91 In addition, the NAO is currently engaged on work in the following main areas:

- the Department's administration of the Coal Health Compensation Schemes; and
- the site management contracts of the Nuclear Decommissioning Authority, a non-departmental public body sponsored by the Department.

Disclosure of audit information

4.92 As Accounting Officer, as far as I am aware there is no relevant audit information of which the Department’s auditors are unaware. I have taken all of the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the Department’s auditors are aware of that information.

Brian Bender

Sir Brian Bender KCB
Principal Accounting Officer and Permanent Secretary
12 July 2007

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CHAPTER 5

Resource Accounts

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Section 5.1

Introduction

5.1 These Accounts have been prepared in accordance with directions issued by HM Treasury in pursuance of Section 5(2) of the Government Resource and Accounts Act 2000.

5.2 The Department's operational performance for 2006-07 is covered in Chapters 1 to 3 of this Report. A commentary about the Department's financial performance in the year, together with an explanation of how bodies within the Departmental family are represented in these accounts is provided in Chapter 4.

5.3 These Resource Accounts detail the resources acquired, held or disposed of during the year and the use of resources by the Department and the consolidating entities during the reporting period. The Department's Consolidated Resource Accounts comprise of the following sections:

- **Statement of Accounting Officer's responsibilities** – sets out the Accounting Officer's responsibilities with regard to the preparation of these Resource Accounts;
- **Statement on internal control** – explains how the Department maintains a sound system of internal control to enable it to achieve its objectives;
- **Comptroller and Auditor General's (C&AG) Certificate and Report on the Accounts to the House of Commons;**
- **Primary Statements and Notes to the accounts** – the Departmental Consolidated Resource Accounts for 2006-07 with accompanying notes.

Section 5.2

Statement of Accounting Officer's responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed the Department of Trade and Industry to prepare, for each financial year, resource accounts detailing the resources acquired, held or disposed of during the year and the use of resources by the Department during the year. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Department and of its net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the *Government Financial Reporting Manual* and in particular to:

- observe the Accounts Direction issued by HM Treasury including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going concern basis.

HM Treasury has appointed the Permanent Secretary of the Department as Accounting Officer of the Department. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the Department of Trade and Industry's assets, are set out in the Accounting Officers' Memorandum issued by HM Treasury and published in *Government Accounting*.

Section 5.3

Statement on internal control

Introduction

This is the Department of Trade and Industry's (the Department's) last Statement on internal control. It ceased to operate on 28 June 2007 following the creation of the new Department for Business, Enterprise and Regulatory Reform (BERR), which assumed much of the work of the DTI, and incorporated the work of the Better Regulation Executive, formerly in the Cabinet Office. References made in the document about planned actions to improve the system of internal control within the Department will be relevant for BERR.

Scope of responsibility

As Accounting Officer, I had responsibility for maintaining a sound system of internal control that supported the achievement of the Department of Trade and Industry's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I was personally responsible, in accordance with the responsibilities assigned to me in Government Accounting .

The Department's purpose was "Creating the conditions for business success: and helping the UK respond to the challenges of globalisation". In supporting Ministers in pursuit of this, I was myself supported by:

- The Department's Management Board which I chaired. It comprised the core operational Directors General; Chief Executive UKTI; and two Independent Board Members. The Director of Communications attended Management Board. The Board met monthly and worked with Ministers to set the Department's strategy and allocate resources, agree the business plan and monitor departmental performance assess risks/issues which could undermine the Department's strategy/business plan, assess departmental capability and plans for the future and set standards, values and controls.
- The following three committees whose governance work supported the role of the Management Board:
 - Audit and Risk Committee;
 - Executive Committee; and
 - Operating Committee (formerly known as the Resources Committee)
- The Secretariat, which advised the Management Board and its committees on their responsibilities, managed agendas, took minutes and recorded follow up on decisions and action points.

I worked with Ministers and the Department's top management through the Management Board, other meetings and correspondence. I involved Ministers in the management of risk at a strategic level, considering major factors that could have prevented departmental objectives being achieved.

The purpose of the system of internal control

The system of internal control was designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it could therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control was based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control was in place in the Department of Trade and Industry for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts, and accorded with HM Treasury guidance.

Capacity to handle risk

The Management Board took the lead in embedding risk management in the organisation by reviewing and updating the key external and internal risks facing the Department each month. The Board also began an exercise to identify long term risks that may have posed a significant threat to the Department in the future. These risks were recorded on a long term risk register and the intention is that they will be reviewed every six months in BERR. Should the threat increase, then these risks will either be escalated to the BERR Management Board or relevant Group Board risk register for appropriate action to be taken.

The Audit and Risk Committee also endorsed an action plan to further embed good risk management practice within the Department's processes and systems, and to support Innovation through well managed risk taking. Work to establish this position will continue in BERR and focus on those areas identified as still most in need of improvement. This will include giving further consideration to risk tolerance where the focus will be on practical examples of how it can be applied in practice thus making it easier to communicate its relevance to staff.

Guidance was available to all staff on risk management through the risk management intranet site. In addition to a risk management policy, specific guidance was available on undertaking risk self assessment which includes guidance on applying risk management as an integral part of the Department's business planning process. Risk management workshops were available to all staff and practical guidance on its application had been incorporated into a wide range of training courses. These courses covered all ranges of staff in the Department and were tailored to be appropriate to their authority and duties.

The risk and control framework

The risk management framework for the Department operated through the initial identification of risks, as part of the business planning process, which threatened achievement of the Department's objectives. These risks were then evaluated in terms of impact and probability. Consideration was then given to the actions

required to effectively manage each risk. This process established the level of residual risk against which the Department was exposed and which was monitored over time as part of performance management.

Ownership for each risk was assigned to a named individual. Assurance that risk mitigation activities were appropriate was obtained through regular management reviews and internal audits of the key activities undertaken in the Department. In order to further embed best practice in risk handling and to ensure a consistent interpretation of the acceptable extent of residual risk, BERR will seek to quantify and communicate its tolerance for risk more effectively across the organisation.

Throughout 2006-07 the Department's Risk Support Team continued to work with colleagues to embed risk identification and assessment into the early stages of key decision making processes such as business planning and performance management, policy making and project management. Furthermore, the Risk Support Team had worked in partnership with a number of policy and project teams to help embed risk management within their activities.

Changes to the business planning and performance management process for 2007-08, had meant that the Department's risk and control framework also needed to be amended. Discussions were held with colleagues from across the Department to identify the most appropriate approach going forwards and the new framework had been implemented prior to the first quarterly performance review in BERR.

Review of effectiveness

As Accounting Officer, I had responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control was informed by the work of the internal auditors and the executive managers within the Department who had responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I had been advised on the implications of the results of my review of the effectiveness of internal control by the Management Board, the Audit and Risk Committee and a plan to address weaknesses and ensure continuous improvement of the system was in place.

The effectiveness of the system of internal control was reviewed by my Directors General who each provided me with a Statement on Risk Management and Internal Control and Corporate Governance Representation for their Group informed by returns or opinions they themselves received from their heads of management units. The Chairman of the Audit and Risk Committee and the Director of Internal Audit reviewed each Statement and Representation with the relevant Director General and discussed the key findings with me.

The Department's Agencies and consolidated Delivery Partners also conducted a review of the effectiveness of internal control in preparing a Statement on Internal Control for their Annual Accounts. A similar process was applied to that in the Department and the signed statements from each Chief Executive formed part of the Department's overall assurance on internal control.

The Department also had arrangements, tailored to each particular situation, for monitoring those sponsored bodies, which were not consolidated into the

Departmental Resource Accounts but where these bodies participated in the delivery of Departmental objectives. Monitoring arrangements were in place as needed for other bodies where the Department had lead policy within Government.

The Audit and Risk Committee provided independent advice on internal control issues and the progress being made in embedding risk management within the organisation. The Audit and Risk Committee advised on the Internal Audit work programme. I attended most meetings of the committee and maintained a regular dialogue with the Chairman. The Chairman also sat as an Independent Board Member on the Management Board.

Internal Audit operated to requirements defined in the Government Internal Audit Standards. Their audit programme was focused around the Department's key risks and they submitted regular reports on the adequacy and effectiveness of internal control together with recommendations for improvement. The Director of Internal Audit provided me with an annual report, which contained an independent opinion on the adequacy and effectiveness of internal control.

There were no significant internal control issues during the course of 2006-07. Where weaknesses in the control environment were identified, action to strengthen control had been taken or was planned.

The 2005-06 review of the effectiveness of internal control highlighted some control issues where further improvement was required. The following progress had been made:

- The Department established its "Top 20" priorities for 2007-08 and each Group identified, as part of business planning, their key activities and projects thus enabling the Department to improve its allocation of resource. The "Top 20" priorities will continue (as appropriate following the Machinery of Government changes) in BERR.
- The Department introduced Professional Skills for Government (PSG) to Senior Civil Service staff and those in Band C. Plans are in place to roll PSG out to the rest of staff in BERR.
- The Department reported a number of examples of good risk management in its last report to Treasury thereby demonstrating the increased maturity of the Department's risk management capability.
- The Department developed a long term risk register to assist the organisation in improving its horizon scanning capability. This will continue to be maintained in BERR.

The awareness and application of risk management continued to improve across the Department. For 2007-08, BERR will operate a new performance management framework to strengthen reporting against the business plan. Quarterly Board reviews will seek to take a more balanced view of performance and will concentrate on key priorities such as the "Top 20", Public Service Agreements and the Balanced Scorecard. The Board will continue to review key risks each month and Directors General will also be asked to take account of risk developments in relation to the "Top 20" and key projects and escalate to the Board's attention where appropriate. Groups will review performance across the full range of the

BERR's business each quarter with risks and issues needing the Board's attention being escalated by exception. These reviews will be supplemented with more intensive reviews at half-year and year-end.

Other matters relevant to my statement

During this accounting period the Design Council implemented a 6.86% pay remit for 2005-06 without Ministerial approval. Retrospective approval was not granted for the full pay remit, but for a pay remit of 3.5% instead. Following careful consideration of the facts, the Minister decided not to take punitive action in the form of a financial penalty. On instructions of the Department, the Design Council have recruited a qualified accountant to ensure HM Treasury guidance is adhered to in future. The Design Council have also modified their audit and risk management processes.

Delays in the implementation of the Companies House Information Processing System (CHIPS) have resulted in the timescale being extended into 2007-08. An impairment review of the capitalised project cost for CHIPS was carried out at year end which resulted in a write down in the value of the assets of £7.5 million. With £4.6 million written off during 2005-06, the total impairment for which there has been no appreciable benefit is now £12.1 million. The programme continues to be challenging and further risks remain but actions have been agreed to mitigate or provide contingencies for these risks.

Following a decision taken by Insolvency Service to terminate the contract for the development and procurement of the CAMEO IT system on the basis that it was unlikely to succeed, the Service has written off a capitalised balance of £3.4 million representing the associated assets under construction. Over the life of the project, the Service expended a total of £7.64 million under the CAMEO contract for which it received little appreciable benefit.

There are no significant internal control problems in the Department's Agencies and NDPBs that impact on the Department's Resource Accounts.

A handwritten signature in dark ink, reading "Brian Bender". The signature is written in a cursive, slightly slanted style. Below the signature is a short horizontal line.

Sir Brian Bender KCB
Principal Accounting Officer and Permanent Secretary

12 July 2007

Section 5.4

Certificate and report of the
Comptroller and Auditor General
to the House of Commons

I certify that I have audited the financial statements of the Department of Trade and Industry for the year ended 31 March 2007 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the Statement of Operating Costs by Departmental Aim and Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

The Accounting Officer is responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer’s responsibilities.

My responsibility is to audit the financial statements and the part of the remuneration report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, certain information given in the Annual Report, which comprises section 3.1, 3.3, 4.1 and paragraphs 4.32 to 4.92 of section 4.3, is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Department has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Department’s compliance with HM Treasury’s guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of the Department’s corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Department's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

Audit Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Department's affairs as at 31 March 2007, and the net cash requirement, net resource outturn, net operating cost, operating costs applied to objectives, recognised gains and losses and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- information given within the Annual Report, which comprises section 3.1, 3.3, 4.1 and paragraphs 4.32 to 4.92 of Section 4.3, is consistent with the financial statements.

Audit Opinion on Regularity

In my opinion, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Report

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP
17 July 2007

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Section 5.5

Primary Statements

Statement of Parliamentary Supply

Summary of Resource Outturn 2006-07

					2006-07 £'000			(restated) 2005-06 £'000
					Estimate			Outturn
								Net Total Outturn compared with Estimate: saving/ (excess)
Request for Resources	Note	Gross Expenditure	A in A	Net Total	Gross Expenditure	A in A	Net Total	Net Total
RfR 1 Increasing UK competitiveness	2	7,066,194	(3,376,647)	3,689,547	6,225,532	(3,232,215)	2,993,317	696,230
RfR 2 Increasing scientific excellence in the UK and maximising its contribution to society	2	3,142,777	(7,672)	3,135,105	3,124,349	(6,425)	3,117,924	17,181
Total resources	3	10,208,971	(3,384,319)	6,824,652	9,349,881	(3,238,640)	6,111,241	713,411
Non-operating cost A in A	7			11,954,845			8,635,066	3,319,779
								15,246,009

Net cash requirement 2006-07

					2006-07 £'000			(restated) 2005-06 £'000
								Net Total Outturn compared with Estimate: saving/ (excess)
					Note	Estimate	Outturn	Outturn
Net cash requirement					4	8,890,128	7,374,857	1,515,271
								7,122,472

The prior year figures have been restated to reflect the Machinery of Government changes described in Note 40.

Summary of income payable to the Consolidated Fund

(In addition to Appropriations in Aid (A in A), the following income relates to the Department and is payable to the Consolidated Fund (cash receipts being shown in italics)

			Forecast 2006-2007		Outturn 2006-2007	
			£'000		£'000	
	Note	Income	Receipts	Income	Receipts	
Total	5	578,922	578,922	7,086,839	7,124,490	

Further details and explanations of the variances between Estimate and Outturn are given in Note 2 and in the Financial Review on page 175.

The Notes on pages 207 to 262 form part of these accounts.

Operating Cost Statement

for the year ended 31 March 2007

				2006-07 £'000	(restated) 2005-06 £'000		
Core Department				Consolidated			Core Department Consolidated
Note	Staff Costs	Other Costs	Income	Staff Costs	Other Costs	Income	
Administration Costs							
Staff costs	9	168,870		175,721			171,857 173,888
Other administration costs	10		148,870		151,717		146,626 147,266
Income	12		(14,721)			(22,154)	(5,671) (6,267)
Programme Costs							
Request for Resources 1							
Staff costs	9	2,962		95,214			3,795 89,134
Programme costs	11		5,827,763		5,843,515		5,571,796 5,585,320
Income	12		(3,169,693)			(3,287,815)	(3,266,230) (3,384,192)
Special dividend (BNFL plc)	12		(1,799,964)			(1,799,964)	
Request for Resources 2							
Staff costs	9	—		—			— —
Programme costs	11		3,116,447		3,116,447		3,044,306 3,044,306
Income	12		(6,597)			(6,597)	(5,475) (5,475)
Totals		171,832	9,093,080	(4,990,975)	270,935	9,111,679	(5,116,530) 5,661,004 5,643,980
Net Operating Cost	3, 13		4,273,937			4,266,084	5,661,004 5,643,980

All income and expenditure is derived from continuing operations.

Administration costs include £8.8m of income and expenditure relating to the Redundancy Payments Service, which were classified as programme costs in 2005-06.

Statement of Recognised Gains and Losses

for the year ended 31 March 2007

				2006-07 £'000	(restated) 2005-06 £'000	
Note	Core Department	Consolidated	Core Department	Consolidated		
Net gain/(loss) on revaluation of tangible fixed assets	26	8,551	8,364	(1,089)	(860)	
Net gain on revaluation of investments	26	2,012,746	2,012,746	557,291	557,291	
Recognised gains and losses for the financial year		2,021,297	2,021,110	556,202	556,431	

The prior year costs have been restated to reflect the Machinery of Government changes described in Note 40.

The Notes on pages 207 to 262 form part of these accounts.

Balance Sheet

as at 31 March 2007

		2006-07 £'000	(restated) 2005-06 £'000
	Note	Core Department Consolidated	Core Department Consolidated
Fixed Assets:			
Tangible assets	14	200,503	209,210
Intangible assets	15	—	448
Investments	16	5,638,781	5,638,781
		5,839,284	5,848,439
Debtors (falling due after more than one year)	18	8,971	—
			8,971
Current Assets:			
Stocks	17	2,079	2,158
Debtors	18	776,793	835,033
Investments	19	1,701,655	1,701,655
Cash at bank and in hand	20	482,774	527,329
		2,963,301	3,066,175
Creditors (amounts falling due within one year)	21	(1,421,945)	(1,471,085)
			(5,015,244)
Net Current Assets		1,541,356	1,595,090
Total Assets less Current Liabilities		7,389,611	7,443,529
			6,117,680
Creditors (amounts falling due after more than one year)	21	(540,934)	(541,072)
			(1,094,539)
Provisions for liabilities and charges:			
Coal	22	(1,620,851)	(1,620,851)
Nuclear	23	(2,543,920)	(2,543,920)
Other	24	(320,265)	(330,510)
		(4,485,036)	(4,495,281)
		2,363,641	2,407,176
			(230,985)
Taxpayers' Equity:			
General fund	25	(2,139,934)	(2,097,172)
Revaluation reserves	26	4,503,575	4,504,348
		2,363,641	2,407,176
			(230,985)
			(203,157)

The prior year balances have been restated to reflect the Machinery of Government changes described in Note 40.

Brian Bender

Sir Brian Bender KCB
Principal Accounting Officer and Permanent Secretary

12 July 2007

The Notes on pages 207 to 262 form part of these accounts.

Consolidated Cash Flow Statement

for the year ended 31 March 2007

	Note	2006-07 £'000	(restated) 2005-06 £'000
Net cash outflow from operating activities	27.1	(5,044,052)	(6,763,485)
Capital expenditure and financial investment	27.2	(441,077)	102,138
Receipts due to the Consolidated Fund which are outside the Department's activities	5	5,234,763	1,490,220
Payments of amounts due to the Consolidated Fund		(6,963,819)	(1,335,414)
Financing	27.4	7,188,027	6,586,555
Increase/(decrease) in cash in the period	27.5	(26,158)	80,014

The increase/(decrease) in cash comprises the movement in the cash Note 20 and the movement in the overdraft disclosed in Note 21.

The prior year balances have been restated to reflect the Machinery of Government changes described in Note 40.

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The Notes on pages 207 to 262 form part of these accounts.

Consolidated Statement of Operating Costs by Departmental Aim and Objectives

for the year ended 31 March 2007

AIM

The Department's aim is creating the conditions for business success; and helping the UK to respond to the challenges of globalisation.

In pursuance of its aim, the Department has the following objectives:

	2006-07 £'000			(restated) 2005-06 £'000		
Objectives:	Gross	Income	Net	Gross	Income	Net
Promoting world class science and innovation	3,474,421	(52,674)	3,421,747	3,373,776	(72,696)	3,301,080
Supporting successful business	2,456,823	(1,810,053)	646,770	2,545,186	(1,696,420)	848,766
Ensuring fair markets	750,913	(220,706)	530,207	840,632	(222,063)	618,569
Secure, sustainable, affordable energy	2,700,457	(3,033,097)	(332,640)	2,280,320	(1,404,755)	875,565
Net operating cost	9,382,614	(5,116,530)	4,266,084	9,039,914	(3,395,934)	5,643,980

See Note 28

The prior year costs have been restated to reflect the Machinery of Government changes described in Note 40.

Section 5.6

Notes

1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2006-07 *Government Financial Reporting Manual* (FReM) issued by HM Treasury. The accounting policies contained in the FReM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

In addition to the primary statements prepared under UK GAAP, the FReM also requires the Department to prepare two additional primary statements. The *Statement of Parliamentary Supply* and supporting Notes show outturn against Estimate in terms of the net resource requirement and the net cash requirement. The consolidated *Statement of Operating Cost by Departmental Aim and Objectives* and supporting Notes analyse the Department's income and expenditure by the objectives agreed with Ministers.

Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the Department for the purpose of giving a true and fair view has been selected. The Department's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of certain fixed and current assets, as described in paragraphs 1.3, 1.4, 1.5 and 1.6.

1.2 Basis of consolidation

These accounts comprise a consolidation of the core Department and those entities which fall within the departmental boundary as defined in the FReM, chapter 2.4, issued by HM Treasury and includes non-voted expenditure in relation to the Redundancy Payments Scheme. Transactions between entities included in the consolidation are eliminated.

A list of all those entities within the departmental boundary is contained in section 3.3 of the Report to these accounts.

1.3 Tangible fixed assets

Title to freehold land and buildings shown in the accounts is held as follows:

- property on the departmental estate, title to which is held by the Department; and

- property held by the Department for Communities and Local Government, in the name of the Secretary of State.

Freehold land and buildings are re-stated at current cost using professional valuations every five years and where appropriate by using indices in the intervening years. Other tangible assets have been stated at current cost using appropriate indices. The core Department does not index any leasehold improvements.

The core Department's capitalisation threshold for tangible fixed assets, including heritage assets, is £1,000; except for furniture assets, where all expenditure in one financial year is pooled and capitalised; and IT hardware where all expenditure is capitalised.

The capitalisation thresholds for the consolidated bodies range from £1,000 to £3,000.

1.4 Intangible fixed assets

Where computer software licences are purchased and have a useful life in excess of one year they are capitalised as intangible fixed assets in the accounts of some of the Department's consolidating bodies. These are revalued each year using relevant published indices. Software licences are amortised over the shorter of the term of the licence and the useful economic life. The useful economic life is usually between 5 to 12 years.

1.5 Depreciation

Freehold land is not depreciated.

The Department has a number of non-operational heritage assets held for historical and cultural reasons only. They are recorded in the departmental asset register at nil book value and are therefore not depreciated.

Assets under construction are not depreciated until the asset is brought into use.

Tangible fixed assets are depreciated at rates calculated to write them down to their estimated residual value on a straight line basis over their estimated useful lives. Assets are normally depreciated over the following periods:

Freehold buildings	50 years or estimated useful life if shorter
Historical leasehold land and buildings	Residual term of the lease
Leasehold improvements	Shorter of estimated remaining useful life or outstanding term of lease
Office machinery and equipment	5 years
Computer equipment	3 – 10 years
Scientific equipment	10 – 50 years
Telecommunication equipment	5 – 10 years
Furniture, fixtures and fittings	7 years
Plant and machinery	7 – 10 years
Motor vehicles	2 – 10 years
Antique furniture	Shorter of estimated remaining useful life or 50 years

For furniture, fixtures and fittings, an asset pool is maintained. Replacements on a one-to-one basis for assets in the pool are charged direct to the Operating Cost Statement in the year of replacement. Major enhancements or additions to the pool are capitalised as assets.

In addition, the Department has operational heritage assets, which are listed buildings used for operational purposes. They are valued on a commercial basis and depreciated in the same way as other assets of that general type i.e. buildings.

1.6 Investments

Fixed asset investments include the Department's entitlement to investment reserves in the British Coal Staff Superannuation Scheme (BCSSS) and the Mineworkers' Pension Scheme (MPS). These are held at market value which is advised by the Government Actuary's Department (GAD). Fixed asset investments in shares and Public Dividend Capital (PDC) are stated at historic cost, less any provision for impairment.

The Launch investments value as shown in the accounts is based on an annual management valuation. The management valuation is based on the discounted value of future income streams. Where the valuation exceeds historical cost, increases in valuation are taken to the revaluation reserve and are released to the General Fund as investments are realised. Any permanent diminution in value is written off against any previous upward revaluations if appropriate, and then to the Operating Cost Statement. The Government's standard discount rate of 3.5% is applied.

Other investments are shown at market value at the balance sheet date, unless this cannot be readily ascertained, in which case they are stated at historic cost less any impairment.

Current asset investments are stated at market value at the balance sheet date.

1.7 Stocks and work in progress

Stocks and work in progress are valued as follows:

- stocks of finished goods and goods for resale are valued at cost or, where materially different, current replacement cost. A net realisable value is used only when they either cannot or will not be used; and
- work in progress is valued at the lower of cost and net realisable value.

1.8 Provisions

In accordance with FRS12, the Department makes provision for liabilities and charges where, at the balance sheet date, a legal or constructive liability (i.e. a present obligation arising from a past event) exists, where the transfer of economic benefits is probable and a reasonable estimate can be made.

Where the time value of money is material, the Department discounts the provision to its present value using a discount rate of 2.2%, the Government's standard rate. Each year the financing charges in the Operating Cost Statement include the adjustments to amortise one year's discount and restate liabilities to current price levels. The change in price levels is calculated using HM Treasury's

annual GDP deflator or, where it is available, the relevant actual change in prices rate.

1.9 Research and development

Expenditure on research and development is charged to the Operating Cost Statement in the year in which it is incurred. Fixed assets acquired for use in research and development are depreciated over the life of the associated research project, or according to the asset category if the asset is to be used for subsequent production work.

1.10 Operating income

Operating income is income that relates directly to the operating activities of the Department and its agencies. It comprises, principally, fees and charges for services provided, on a full cost basis, to external customers, public sector repayment work, dividends and special dividends. It also includes other income such as that from investments. It includes both income appropriated-in-aid and income collected by the Department on behalf of HM Treasury on an agency basis and payable to the Consolidated Fund. This income is known as Consolidated Fund Extra Receipts (CFERs).

The Department is required to identify those CFERs that are negative public expenditure (amounts used to reduce the amount of expenditure the Department would otherwise have to spend) and those revenue CFERs that relate to the recovery of costs recorded in the Operating Cost Statement, or to returns on investments. These types of CFERs are credited to the Operating Cost Statement as income to the Department. The remaining CFERs are not included in the Department's Operating Cost Statement and are accounted for through the balance sheet accounts of cash and creditors.

1.11 Administration and programme expenditure and income

The Operating Cost Statement is analysed between administration and programme income and expenditure. Administration costs reflect the costs of running the Department, as defined under the administration cost-control regime, together with the associated operating income. Income is analysed in the Notes between that operating income which, under the regime, is allowed to be offset against gross administrative costs in determining the outturn against the administration cost limit, and that operating income which is not. Programme costs reflect non-administration costs, including payments of grants and other disbursements by the Department.

1.12 Grants payable

Grants payable are recognised in the period in which the grant recipient carries out the activity that creates an entitlement to grant. Recognition of entitlement varies according to the details of individual schemes and the terms of the offers made. Unpaid and unclaimed grants are charged to the Operating Cost Statement on the basis of estimates of claims not received and are included in accruals in the balance sheet.

1.13 Capital charge

A charge, reflecting the cost of capital utilised by the Department, is included in operating costs. The charge is calculated at the real rate set by HM Treasury (currently 3.5%) on the average carrying amount of all assets less liabilities, except for:

- cash balances with the Office of the Paymaster General (OPG), where the charge is nil;
- the Department's investments in the trading funds (Companies House and the Patent Office) where the charge is equal to 3.5% of the trading fund's underlying net assets, and the public corporations (BNFL, British Shipbuilders and Royal Mail) where the charge is equal to 8% of the public corporation's underlying net assets; and
- amounts due from, or due to be surrendered to, the Consolidated Fund, where the credit will be at a nil rate.

1.14 Foreign exchange

Transactions that are denominated in a foreign currency are translated into sterling at the rate of exchange ruling on the date of each transaction, except where rates do not fluctuate significantly in which case an average rate for a period is used. Monetary assets and liabilities denominated in foreign currency at the balance sheet date are translated at the rates ruling at that date. These translation differences are dealt with in the Operating Cost Statement.

1.15 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) as described at Note 9. The defined benefit elements of the schemes are un-funded and are non-contributory except in respect of dependents' benefits. The Department recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution elements of the schemes, the Department recognises the contributions payable for the year.

1.16 Early departure costs

The Department is required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retire early. The Department provides in full for this cost when the early retirement programme has been announced and is binding on the Department. The Department may, in certain circumstances, settle some or all of its liability in advance by making a payment to the Civil Service Superannuation Vote. The amount provided in these accounts is shown gross of any such payments.

1.17 Taxation

The Department is exempt from income and corporation tax by way of its Crown exemption.

Value Added Tax (VAT) is accounted for in the accounts, in that amounts are shown net of VAT except:

- irrecoverable VAT is charged to the Operating Cost Statement, and included under the heading relevant to the type of expenditure;
- irrecoverable VAT on the purchase of an asset is included in the capitalised purchase cost of the asset.

The net amount due to, or from, HM Customs and Excise in respect of VAT is included within debtors and creditors within the consolidated Balance Sheet.

1.18 Statement of Parliamentary Supply and the Consolidated Statement of Operating Costs by Departmental Aim and Objectives

The information contained in the Statement of Parliamentary Supply and associated Notes are based on the Request for Resources information that forms part of the Parliamentary approval processes.

The Consolidated Statement of Operating Costs by Departmental Aim and Objectives reports expenditure and income for each of the Department's four objectives. The differences between the net resource outturn, as disclosed in the Statement of Parliamentary Supply and the net operating costs, as disclosed in the Operating Cost Statement and the Statement of Operating Costs by Departmental Aim and Objectives, are disclosed at Note 3 to the accounts.

1.19 Leases

Rentals due under operating leases are charged to the Operating Cost Statement over the lease term on a straight-line basis, or on the basis of actual rentals payable where this fairly reflects the usage. Future payments, disclosed at Note 30 'Commitments under Operating Leases', are not discounted.

The Department currently has no Finance leases. There is one long leasehold land on the Crown Estate.

1.20 Inter-Departmental transfers of functions: restatement of prior year comparators

In accordance with the FReM, where functions are transferred between Government Departments, the results and cash flows of the combining entities are brought into account from the start of the financial year in which the transfer occurs. Prior-year comparative figures are restated to show the effect as if the transfer had occurred one year earlier.

1.21 Private Finance Initiative (PFI) transactions

PFI transactions have been accounted for in accordance with Technical Note No. 1 (Revised), entitled 'How to Account for PFI Transactions' as required by the FReM. Where the balance of risks and rewards of ownership of the PFI property are borne by the PFI operator, the PFI payments are recorded as an operating cost.

1.22 Contingent liabilities

In addition to contingent liabilities disclosed in accordance with FRS 12, the Department discloses for parliamentary reporting and accountability purposes certain contingent liabilities where the likelihood of a transfer of economic benefit is remote. These comprise:

- items over £250,000 (or lower, where required by specific statute) that do not arise in the normal course of business and which are reported to Parliament by Departmental Minute prior to the Department entering into the arrangement; and
- all items (whether or not they arise in the normal course of business) over £250,000 (or lower, where required by specific statute or where material in the context of Resource Accounts), which are required by the FReM to be noted in the Resource Accounts.

Where the time value of money is material, contingent liabilities which are required to be disclosed under FRS 12 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by FRS 12 are stated at the amounts reported to Parliament.

In accordance with the FReM, the Department does not disclose any contingent liabilities of its non-departmental public bodies that arise in the normal course of business.

1.23 Third-party assets

The Department holds, as custodian or trustee, certain cash balances at commercial banks belonging to third parties. These are not recognised in the accounts since neither the Department nor the Government more generally has a direct beneficial interest in them.

2. Analysis of net resource outturn by section

							Outturn	2006-07 £'000 Estimate	(restated) 2005-06 £'000
RfR 1 Increasing UK competitiveness	Administration	Other Current	Grants	Gross Resource Expenditure	A in A	Net Total	Net Total	Net Total Outturn compared with Estimate	Prior-year Outturn
<i>Central Government spending</i>									
A Knowledge Transfer and Innovation	550	239,287	119,373	359,210	(41,630)	317,580	331,611	14,031	240,390
B Extending Competitive Markets	–	84,298	83,307	167,605	(90,860)	76,745	87,105	10,360	92,486
C Security of Energy Supply	–	4,513	17,377	21,890	(12,288)	9,602	10,284	682	65,358
D Sustainability and the Environment	–	23,354	52,032	75,386	(2,273)	73,113	104,837	31,724	54,205
E Enterprise Growth and Business Investment	–	30,484	90,785	121,269	(21,582)	99,687	148,639	48,952	204,444
F Regional Economies	–	292	1,766,844	1,767,136	(1,732,826)	34,310	191,312	157,002	241,101
G Trade and Investment	31,196	–	–	31,196	(309)	30,887	40,423	9,536	33,236
H Maximising Potential in the Workplace	–	65,339	9,664	75,003	(4,164)	70,839	108,999	38,160	128,311
I Corporate Activity and Insolvency Framework	8,676	160,517	393	169,586	(122,914)	46,672	61,890	15,218	49,119
J Assets and Liabilities	4,094	(20,602)	2,732,237	2,715,729	(1,191,163)	1,524,566	1,846,398	321,832	975,868
K Nuclear Security and Export Control	–	529	49,797	50,326	(32)	50,294	56,801	6,507	60,080
L Activities in Support of all Objectives	275,019	(19,448)	–	255,571	(12,174)	243,397	308,559	65,162	259,324
<i>Support for Local Authorities</i>									
M Current Grants to the London Development Agency	–	–	415,625	415,625	–	415,625	392,689	(22,936)	396,608
Total	319,535	568,563	5,337,434	6,225,532	(3,232,215)	2,993,317	3,689,547	696,230	2,800,530

Outturn							2006-07 £'000 Estimate	(restated) 2005-06 £'000	
RfR 2 Increasing scientific excellence in the UK and maximising its contribution to society	Administration	Other Current	Grants	Gross Resource Expenditure	A in A	Net Total	Net Total Outturn compared with Estimate		Prior-year outturn
							Net Total		
Central Government spending									
A The Royal Society	—	—	36,359	36,359	—	36,359	36,359	—	32,554
B Royal Academy of Engineering	—	—	7,885	7,885	—	7,885	7,885	—	5,850
C British Academy	—	—	16,885	16,885	—	16,885	16,885	—	14,050
D OST initiatives	—	—	7,738	7,738	—	7,738	10,000	2,262	6,765
E Knowledge Transfer	—	—	100,963	100,963	—	100,963	94,000	(6,963)	85,677
F Science Research Investment Fund	—	—	305,300	305,300	—	305,300	297,000	(8,300)	382,114
G Science and Engineer Base Administration Costs	3,382	—	—	3,382	—	3,382	3,352	(30)	3,473
H Group Administration Costs	4,521	—	—	4,521	—	4,521	4,681	160	4,533
I, L Biotechnology and Biological Sciences Research Council	—	—	376,964	376,964	(6,425)	370,539	371,308	769	326,367
J Research Councils' Pension Schemes	—	17,202	—	17,202	—	17,202	17,202	—	15,100
K Arts and Humanities Research Council	—	—	88,256	88,256	—	88,256	88,256	—	65,378
M Economic and Social Research Council	—	—	140,508	140,508	—	140,508	140,508	—	255,864
N Engineer and Physical Sciences Research Council	—	—	637,134	637,134	—	637,134	637,134	—	554,521
O Medical Research Council	—	—	503,575	503,575	—	503,575	502,423	(1,152)	459,542
P Natural Environment Research Council	—	—	340,630	340,630	—	340,630	366,361	25,731	295,977
Q Particle Physics and Astronomy Research Council	—	—	324,500	324,500	—	324,500	328,500	4,000	310,000
R Council for the Central Laboratory of the Research Council	—	—	158,283	158,283	—	158,283	158,283	—	155,500
S Council for the Central Laboratory of the Research Councils — Diamond Synchrotron	—	—	44,818	44,818	—	44,818	44,818	—	73,960
T Fees Payable Under the Animals (Scientific Procedures) Act 1986	—	117	—	117	—	117	175	58	219
U Science and Society	—	—	9,329	9,329	—	9,329	9,975	646	—
Total	7,903	17,319	3,099,127	3,124,349	(6,425)	3,117,924	3,135,105	17,181	3,047,444
Total RfRs 1 & 2 Net resource outturn	327,438	585,882	8,436,561	9,349,881	(3,238,640)	6,111,241	6,824,652	713,411	5,847,974

Explanations of the variation between Estimate and Outturn are given in the Financial Review on page 175.

3. Reconciliation of outturn to net operating cost and against administration budget

3.1 Reconciliation of net resource outturn to net operating cost

				2006-2007 £'000	(restated) 2005-2006 £'000
	Note	Outturn	Supply Estimate	Outturn Compared with Estimate	Outturn
Net Resource Outturn	2	6,111,241	6,824,652	(713,411)	5,847,974
Non-supply income (CFERs)	5	(1,848,720)	(4,141)	(1,844,579)	(456,727)
Non-supply Expenditure – National Insurance Fund expenditure (RPS)	25	204,643	244,509	(39,866)	252,733
Royal Mail and BNFL Cost of Capital credit		(201,080)	–	(201,080)	–
NLF net funding*		–	–	–	–
BCSSS net funding*		–	–	–	–
Net Operating Cost		4,266,084	7,065,020	(2,798,936)	5,643,980
*Net Funding				£'000	£'000
NLF loan income				(29,170)	(29,170)
NLF loan expenditure				29,170	29,170
Total				–	–
BCSSS Income				(10,000)	(10,000)
BCSSS Expenditure				10,000	10,000
Total				–	–

The Redundancy Payments Service (RPS)

The Department is responsible for the approval and processing of claims under the Redundancy Payment Scheme, which is financed from the National Insurance Fund. Claims processed under the Scheme fall into two categories: RP1 (which covers redundancy pay, holiday pay and arrears of pay) and RP2 (pay in lieu of notice). The average payment for RP1 during 2006-07 was £1,448 (2005-06: £2,662). An average amount of £690 was paid during 2006-07 for RP2 (2005-06: £964).

There is an associated income related to this scheme arising from two sources:

- Solvent Recovery – where monies are recovered over a period of up to three years from companies, setting up a standing order, that are continuing to trade but would not be able to do so if they had to meet the full costs of redundancy payments at that time;
- Insolvent Recovery – the Department becomes a creditor receiving a dividend if there are sufficient funds on the winding up of the company.

Expenditure in 2006-07 totalled £245 million (2005-06: £290 million) against income of £40 million (2005-06: £37 million).

3.2 Outturn against final administration budget

		2006-07 £'000	(restated) 2005-06 £'000
	Budget	Outturn	Outturn
Gross administration budget	355,813	327,438	321,154
Income allowable against the administration budget	(18,932)	(22,154)	(6,267)
Net outturn against final Administration Budget	336,881	305,284	314,887

4. Reconciliation of resources to cash requirement

	Note	Estimate	Outturn	2006-07 Net Total Outturn compared with Estimate: saving/(excess)
	£'000	£'000	£'000	£'000
Resource Outturn	2	6,824,652	6,111,241	713,411
Capital:				
Acquisition of fixed assets	14,15	36,757	32,893	3,864
Investments	27.3	13,047,000	9,042,810	4,004,190
Non operating A in A:				
Proceeds of fixed asset disposals	7	(4,291)	(2)	(4,289)
Investments	7,27.3	(11,950,554)	(8,635,064)	(3,315,490)
Accruals adjustments:				
Non-cash items	10.1,27.1	(352,931)	(410,122)	57,191
Changes in working capital other than cash		(6,000)	46,682	(52,682)
Changes in creditors falling due after more than one year	21	—	3,639	(3,639)
Use of provision	22,23,24	1,295,495	1,182,780	112,715
Net cash requirement		8,890,128	7,374,857	1,515,271

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5. Analysis of income payable to the Consolidated Fund

In addition to appropriations-in-aid, the following income relates to the Department and is payable to the Consolidated Fund (cash receipts being shown in *italics*):

	Note	Forecast 2006-07 £'000		Outturn 2006-07 £'000	
		Income	Receipts	Income	Receipts
Operating income and receipts – excess A in A	–	–	–	–	–
Other operating income and receipts not classified as A in A	12	4,141	<i>4,141</i>	1,848,720	<i>1,889,727</i>
	25	4,141	<i>4,141</i>	1,848,720	<i>1,889,727</i>
Non-operating income and receipts – excess A in A		–	–	–	–
Other Non-operating income and receipts not classified as A in A		429,999	<i>429,999</i>	–	–
Other amounts collectable on behalf of the Consolidated Fund		144,782	<i>144,782</i>	5,238,119	<i>5,234,763</i>
Total income payable to the Consolidated Fund		578,922	<i>578,922</i>	7,086,839	<i>7,124,490</i>

A breakdown of other amounts payable to the Consolidated Fund is as follows:

	2006-07 £'000	2005-06 £'000
Receipt from the Coal Authority	369	372
Coal pension surplus releases	569,000	440,280
Launch investment levies received	117,609	115,319
Petroleum licences	60,262	60,911
Universal banking contributions	36,500	37,700
Companies House late filing penalties	40,835	37,936
OFCOM Wireless Telegraphy Act	90,262	76,304
BNFL NLIP	3,767,642	700,000
BNFL Debenture	550,153	24,847
Other	5,487	41,666
Total	5,238,119	1,535,335

6. Reconciliation of income recorded within the Operating Cost Statement to operating income payable to the Consolidated Fund

	Note	2006-07 £'000	(restated) 2005-06 £'000
Operating income	12	(5,116,530)	(3,395,934)
Income outside of the supply process	12	29,170	29,170
Gross income		(5,087,360)	(3,366,764)
Less: Income authorised to be appropriated-in-aid		3,238,640	2,910,039
Operating income payable to the Consolidated Fund	5	(1,848,720)	(456,725)

7. Non-operating income

	2006-07 £'000	2005-06 £'000
Royal Mail Holdings Plc working capital loan	(8,590,000)	(15,197,774)
Proceeds on disposal of fixed assets	(2)	(43)
Other investment income	(9,099)	(19,704)
Launch investment income	(36,509)	(30,972)
Movement in Launch Investment debtors	544	2,484
Non-operating income	(8,635,066)	(15,246,009)

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8. Non-operating income not classified as Appropriations in Aid (A in A)

There is no non-operating income not classified as A in A for 2006-07.

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9. Staff numbers and related costs

Staff costs comprise:

	2006-07 £'000				(restated) 2005-06 £'000
	Permanently employed staff	Others	Ministers	Special Advisers	Total
Wages and salaries	207,212	9,704	187	132	217,235
Social security costs	16,172	43	18	24	16,257
Other pension costs	38,782	69	—	—	38,851
Total	262,166	9,816	205	156	272,343
Less recoveries in respect of outward secondments	—	(1,408)	—	—	(1,408)
Total net costs	262,166	8,408	205	156	270,935
Of which: Core Department	167,391	4,080	205	156	171,832

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The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the Department is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2003. Details can be found in the Resource Accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

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For 2006-07, employers' contributions of £37,203,945 were payable to the PCSPS (2005-06: £44,821,635) at one of four rates in the range 17.1% to 25.5% of pensionable pay, based on salary bands (the rates in 2005-06 were between 16.2% and 24.6%). The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. From 2007-08, the salary bands will be revised but the rates will remain the same. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

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Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer's contributions of £101,805 (2005-06: £56,024) were paid to one or more of a panel of four appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% (the rates in 2005-06 were between 3% and 12.5%) of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of 0.8% (2005-06: 0.8%) of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees. There were £9,016 of contributions due to the partnership pension providers at the balance sheet date, but there were no contributions prepaid at that date.

In 2006-07, 9 persons (2005-06: 5 persons) retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £48,330 (2005-06: £26,093).

Average number of persons employed

The average number of whole-time equivalent persons employed during the year was as follows. These figures include those working in the Department as well as in agencies and other bodies included within the Consolidated Departmental Resource Accounts.

					2006-07 Number	(restated) 2005-06 Number
Objective	Permanent staff	Others	Ministers	Special Advisers	Total	Total
Supporting Successful Business	2,007.1	96.0	2.5	0.8	2,106.4	2,332.9
Promoting world-class Science and Innovation	495.9	14.4	1.3	0.8	512.4	568.0
Ensuring Fair Markets	3,355.7	484.1	1.5	0.8	3,842.1	3,984.8
Secure, sustainable, affordable energy	829.5	56.1	1.3	0.8	887.7	885.3
Total	6,688.2	650.6	6.6	3.2	7,348.6	7,771.0
Of which: Core Department	3,758.2	181.6	6.6	3.2	3,949.6	4,402.0

Staff Debtors

At 31 March 2007 1,635 (31 March 2006: 1,774) employees of the Department and its Agencies were in receipt of advances of travel and housing loans, repayable to the employer. The staff debtor amount is disclosed in Note 18.

10. Other administration costs

Other administration costs comprise:

		2006-07 £'000	(restated) 2005-06 £'000
	Note	Core Department Consolidated	Core Department Consolidated
Rentals under operating leases:			
Plant and Machinery		1,148	1,196
Other		35,693	36,199
Interest charges		2	4
PFI service charge	31	28,294	26,235
Research and Development		1	45
Travel and subsistence		7,727	9,820
IT support		8,592	11,850
Training and other staff costs		14,221	11,243
Professional services		13,902	15,595
Accommodation		18,456	19,536
Other		5,944	4,977
		133,980	135,658
Non-Cash Items:			
Depreciation	14,15	5,822	4,889
Revaluation/impairment	14,15	560	46
(Profit)/Loss on disposal of fixed assets		8	1,507
Cost of capital charges		4,885	4,728
Auditors' remuneration		266	242
Specific bad debt write off		753	124
Provision for bad debt		(683)	(10,637)
Provisions provided for in year	22,23,24	2,510	7,936
Unwinding of discount on provisions	22,23,24	769	904
Change in discount rate		–	1,229
Other agency notional costs		–	–
Total Non-cash		14,890	10,968
Total other administration costs		148,870	147,266

The auditors' remuneration represents the cost for the audit of the financial statements carried out by the Comptroller and Auditor General. There were no fees in respect of non-audit work.

With the exception of expenditure relating to the Redundancy Payment Service, administration costs do not include the costs of ACAS or INSS. These agency costs are recorded as programme expenditure and hence are excluded from the administration budget regime.

10.1 Administration and programme: non cash costs summary

The total for non cash costs in Note 10 (other administration costs) and Note 11 (programme costs) is as follows:

		2006-07 £'000	(restated) 2005-06 £'000
	Note	Core Department Consolidated	Core Department Consolidated
Auditors' remuneration		266320	242293
Depreciation/amortisation		8,07811,895	7,8719,861
Loss/(profit) on the disposal of fixed assets		8295	1,5071,541
Revaluation/impairments		17,52420,583	25,06325,153
Bad debt provision movement		(683)(961)	(10,637)(10,650)
Specific bad debt write off		88714,020	5,60015,679
Cost of capital charge/credit		(197,061)(196,567)	(362,357)(361,737)
Other agency notional costs		—819	—
Launch Investment – unwinding of discount		(56,098)(56,098)	(57,807)(57,807)
Movement on provisions		411,387414,738	401,740410,365
Total	4, 27.1	184,308209,044	11,22232,698

11. Programme costs

			2006-07 £'000	(restated) 2005-06 £'000	
	Note	Core Department	Consolidated	Core Department	Consolidated
Grant in Aid		6,939,813	6,891,468	6,623,357	6,574,451
Other grants		1,229,258	1,229,258	1,220,528	1,220,528
Interest on NLF loan on-lent to Royal Mail Holdings plc		29,170	29,170	29,170	29,170
PFI Service Charges	31	—	5,548	—	4,491
Net gain on foreign exchange		(147)	(147)	(252)	(252)
Rentals under operating leases – plant and machinery	12		548	5	78
Research and development		83,476	82,043	111,153	108,454
Redundancy Payments Service – National Insurance Fund		204,643	204,643	252,733	252,733
Other		288,567	325,221	379,154	418,498
Auditors' remuneration		—	28	—	50
		8,774,792	8,767,780	8,615,848	8,608,201
Non cash items					
Depreciation – tangible fixed assets	14	2,256	5,707	2,982	4,454
Amortisation – Intangible fixed assets	15	—	189	—	343
Revaluation/impairment		—	3,041	4,951	5,041
Loss on disposal of fixed assets	14	—	274	—	28
Investment impairment		16,964	16,964	20,066	20,066
Specific bad debt write off		134	12,173	5,476	15,555
Cost of capital credit		(201,946)	(201,550)	(367,085)	(366,513)
Auditors' remuneration		—	32	—	32
Provisions:					
Provided for in year	22,23,24	294,026	297,368	(136,907)	(129,143)
Unwinding of discount on provisions	22,23,24	114,082	114,082	144,058	144,849
Change in discount rate	22,23,24	—	—	384,520	384,520
Launch Investment – unwinding of discount	16	(56,098)	(56,098)	(57,807)	(57,807)
Total non cash		169,418	192,182	254	21,425
Total programme expenditure		8,944,210	8,959,962	8,616,102	8,629,626

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12. Income

	2006-07 £'000			(restated) 2005-06 £'000		
	RfR1	RfR2	Total	RfR1	RfR2	Total
Administration Income:						
Fees and charges received from external customers	21,593	—	21,593	6,058	—	6,058
Fees and charges received from other Departments	306	—	306	—	—	—
Other allowable within the administration cost limit	255	—	255	209	—	209
Total Administration Income (A in A)	22,154	—	22,154	6,267	—	6,267
Programme Income:						
Special dividend (Patent Office)	—	—	—	40,000	—	40,000
Funding from other government departments for Regional Development Agencies/London Development Agency	1,731,462	—	1,731,462	1,629,793	—	1,629,793
Other income from other government departments	23,521	6,425	29,946	13,081	4,868	17,949
European Union Funding	4,655	—	4,655	1,200	—	1,200
Nuclear Decommissioning Authority	1,181,000	—	1,181,000	1,333,000	—	1,333,000
Other	269,423	—	269,423	271,274	—	271,274
Programme Income (A in A)	3,210,061	6,425	3,216,486	3,288,348	4,868	3,293,216
Programme Income outside of the supply process						
Interest on NLF loan on-lent to Royal Mail Holdings plc	29,170	—	29,170	29,170	—	29,170
Consolidated Fund Extra Receipts (CFERs)	48,584	172	48,756	66,674	607	67,281
Special Dividend (BNFL plc)	1,799,964	—	1,799,964	—	—	—
Total Programme Income	5,087,779	6,597	5,094,376	3,384,192	5,475	3,389,667
Total Operating Income	5,109,933	6,597	5,116,530	3,390,459	5,475	3,395,934

Total income allowable against the Estimate, as shown in the Statement of Parliamentary Supply, amounted to £3,238,640.

13. Analysis of net operating cost by spending body

	2006-07 £'000	(restated) 2005-06 £'000
	Estimate	Outturn
Spending body:		
Core Department	6,968,615	5,566,545
Advisory, Conciliation and Arbitration Service	48,162	57,306
Insolvency Service	40,539	7,488
Small Business Service	7,490	10,356
National Weights and Measures Laboratory	214	2,285
Net operating cost	7,065,020	5,643,980

14. Tangible fixed assets

	Land	Buildings	Leasehold Improvements	Office Machinery	Computer Equipment	Scientific Equipment	Furniture, Fixtures & fittings	Motor Vehicles	Plant and Machinery	Assets under Construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation											
(restated)											
At 1 April 2006	11,903	112,174	36,490	1,479	14,213	1,454	12,867	46	2,042	22,245	214,913
Additions	—	—	3,148	413	739	126	345	—	49	27,920	32,740
Disposals	—	(235)	(401)	(246)	(1,147)	(24)	(2,622)	(7)	(350)	—	(5,032)
Transfers	—	—	4,566	—	—	—	—	—	—	(4,566)	—
Reclassifications	—	—	(5,277)	(2)	(574)	—	3	—	678	5,943	771
Revaluation	355	8,893	550	(36)	(1,078)	10	79	1	12	(3,359)	5,427
At 31 March 2007	12,258	120,832	39,076	1,608	12,153	1,566	10,672	40	2,431	48,183	248,819
Depreciation											
(restated)											
At 1 April 2006	94	8,246	8,036	1,223	5,162	714	6,993	39	1,489	—	31,996
Charge in year	13	2,289	5,980	114	1,344	68	1,718	3	177	—	11,706
Disposals	—	(235)	(168)	(228)	(1,144)	(19)	(2,586)	(7)	(350)	—	(4,737)
Transfers	—	—	—	—	—	—	—	—	—	—	—
Reclassifications	—	—	(346)	(1)	(278)	—	4	—	614	—	(7)
Revaluation	10	673	244	(28)	(467)	(3)	176	—	46	—	651
At 31 March 2007	117	10,973	13,746	1,080	4,617	760	6,305	35	1,976	—	39,609
Net book value at 31 March 2007	12,141	109,859	25,330	528	7,536	806	4,367	5	455	48,183	209,210
Net book value (restated)											
at 31 March 2006	11,809	103,928	28,454	256	9,051	740	5,874	7	553	22,245	182,917
Asset financing											
Owned	12,141	109,859	25,330	528	7,536	806	4,367	5	455	48,183	209,210
Net book value at 31 March 2007	12,141	109,859	25,330	528	7,536	806	4,367	5	455	48,183	209,210

Analysis of tangible fixed assets

The net book value of tangible fixed assets comprises:

	Land	Buildings	Leasehold Improvements	Office Machinery	Computer Equipment	Scientific Equipment	Furniture, Fixtures & fittings	Motor Vehicles	Plant and Machinery	Assets under Construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Core department											
March 2007	12,141	109,859	22,182	52	4,767	–	3,841	–	256	47,405	200,503
Agencies											
March 2007	–	–	3,148	476	2,769	806	526	5	199	778	8,707
Core Department											
March 2006	11,809	103,928	22,857	86	6,038	–	5,370	–	407	18,884	169,379
Agencies											
March 2006	–	–	5,597	170	3,013	740	504	7	146	3,361	13,538

The total fixed asset additions as disclosed in Notes 14 and 15, amounting to £32,893 can be reconciled to the cash payments made during the year as follows:

	Note	£'000
Cash payments made to purchase fixed assets during 2006-07 for:		
Tangible fixed assets	27.2	33,180
Intangible fixed assets	27.2	153
		33,333
Movement in creditors	27.3	(440)
Additions in fixed asset Notes	14, 15	32,893

14.1 The net book value of land and buildings comprises:

	31 March 2007 £'000		(restated) 31 March 2006 £'000	
	Land	Buildings	Land	Buildings
Freehold	11,393	109,859	11,048	103,928
Long Leasehold	748	–	761	–
Total	12,141	109,859	11,809	103,928

The Department has the following freehold properties:

- the Core Store at 36 Gilmerton Road, Edinburgh was revalued in June 2004 by Donaldson's, independent Chartered Surveyors, on an existing use basis. On 1 August 2005 the Core Store was leased to the British Geological Survey (BGS) for the sum of £1 per annum for a term of 10 years. BGS is a research centre wholly owned by the Natural Environment Research Council (NERC), which is funded by the Department through Grant in Aid;

- the National Physical Laboratory (NPL) site at Teddington. The site includes a number of properties, which have been scheduled for demolition, pending the construction of the new NPL building. Accordingly, these properties have been included on the balance sheet at nil net book value. The land and building occupied by the National Weights and Measures Laboratory and British Maritime Technology were valued by Powis Hughes, independent Chartered Surveyors, in October 2003 on a basis of open market value; and
- the NPL building was valued on 31 March 2005 by King Sturge, a supplier of commercial property agency services, including professional valuations undertaken by Chartered Surveyors. As at 31 March 2005 its value, on a depreciated replacement cost basis, was assessed to be £102.35m. It was necessary to incur additional costs, including commissioning costs, to make the building perform to the specifications in the original PFI project agreement. It was estimated that these would be £17m and accordingly a value at 31 March 2005 of £85.35m was therefore assigned. The net book value of the building as at 31 March 2007 is £92.6m (2005-06 £90.3m). In addition expenditure during 2006-07 of £16.8m is held in Assets in the course of construction. This relates both to completion and enhancements. As at 31 March 2007 the final parts of the building are undergoing commissioning and testing.

All professional valuations have been made in accordance with Royal Institute of Chartered Surveyors guidance.

Other tangible assets have been restated to current value as at 31 March 2007, using appropriate indices published by the Office of National Statistics.

14.2 Heritage assets

14.2.1 Operational heritage assets:

The following listed building, located at the National Physical Laboratory (NPL) in Teddington, is included in the value for buildings above. It is used for operational purposes and has been valued on a commercial basis.

- Bushy House, including The Clock House, the Conservatory and Garden Temple.

14.2.2 Non-operational heritage assets:

The Department has a number of non-operational heritage assets held for historical and cultural association alone. These are recorded in the Register of Assets at nil book value, in accordance with guidance in HM Treasury's *Financial Reporting Manual*, which excludes museum collections, and other national archives existing at 31 March 2000 from the requirement of valuation.

The following non-operational heritage assets are located at the National Physical Laboratory (NPL) in Teddington:

- 'Newton's Apple Tree'
- National Physical Laboratory museum and archives, including some UK primary standard weights and measures.

15. Intangible fixed assets

	2006-07 £'000	2005-06 £'000
	Total	Total
Cost or Valuation		
At 1 April 2006	2,456	1,546
Additions	153	175
Disposals	—	(3)
Transfers	(777)	777
Revaluation	(63)	(39)
At 31 March 2007	1,769	2,456
Amortisation		
At 1 April 2006	1,163	848
Charged in year	189	343
Disposals	—	(3)
Transfers	—	—
Revaluation	(31)	(25)
At 31 March 2007	1,321	1,163
Net Book Value		
At 31 March 2007	448	1,293
At 31 March 2006	1,293	698

Analysis of intangible fixed assets

The net book value of intangible fixed assets, all of which relate to the agencies and comprise of software licences, is £448k.

16. Fixed asset investments

	Coal Pension Investment Reserves	Launch Investments	Ordinary Shares	Public Dividend Capital	BNFL Debenture	Other Loans and Investments	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Value at 1 April 2006	1,789,061	1,602,796	100	22,214	550,153	572,409	4,536,733
Additions	—	—	430,273	5,000	—	17,537	452,810
Disposals	(10,077)	—	—	—	(550,153)	—	(560,230)
Repayments	—	—	—	—	—	(9,099)	(9,099)
Income	—	(154,118)	—	—	—	—	(154,118)
Revaluation	1,295,672	38,657	—	—	—	—	1,334,329
Amortisation	—	56,098	—	(5,000)	—	(12,742)	38,356
Value at 31 March 2007	3,074,656	1,543,433	430,373	22,214	—	568,105	5,638,781

All investments are held by the core Department.

16.1 Coal pension investment reserves – BCSSS and MPS coal pension investment reserves

	Value at 1 April 2006	Additions	Disposals	Revaluation	Value at 31 March 2007
	£'000	£'000	£'000	£'000	£'000
BCSSS Investment Reserve	1,169,869	—	(10,000)	527,615	1,687,484
MPS Investment Reserve	619,192	—	(77)	768,057	1,387,172
Total	1,789,061	—	(10,077)	1,295,672	3,074,656

The Department's investments in the investment reserves of the two pension schemes for the former employees of the British Coal Corporation, the Mineworkers Pension Scheme (MPS) and the British Coal Staff Superannuation Scheme (BCSSS), are derived from the unallocated share of surplus attributed to British Coal at the privatisation of the industry in 1994. The Investment Reserves exist as sub-funds and are available to maintain the benefits of scheme members in accordance with guarantee arrangements entered into in 1994. To the extent the Investment Reserves are not required to meet deficits, they will be paid to the Department over a period of at least 25 years on the advice of each scheme's actuary, a role fulfilled by the Government Actuary (GAD).

The two schemes are subject to triennial actuarial valuations, the latest of which, with effective dates of 30 September 2005 for the MPS and 31 March 2006 for the BCSSS, were completed in September 2006 and February 2007 respectively. Actuarial valuations are carried out by 'The Scheme Actuary', defined in the scheme provisions as the GAD and only the defined Actuary can undertake the scheme and fund valuations after consulting both the Trustees and the Guarantor on the actuarial assumptions to be used. The Government Actuary assesses both the market value and actuarial value of the funds' assets and liabilities. The balances disclosed in the accounts are the market value. As a result of these valuations, which revealed

substantial surpluses, transfers from the Investment Reserves to the Guaranteed Funds (from which the guaranteed scheme benefits are paid) at the time of the last valuations were returned to the Investment Reserves, revalued in line with subsequent investment returns in accordance with the guarantee arrangements. Changes in the value of the investment between the effective date of the triennial assessment and the 31 March 2007 are management estimates of the current market value. The value of the investment is adjusted by the interim valuations undertaken by the Scheme Actuary, when these are provided.

The accounts of the two pension schemes can be obtained from Coal Pension Trustee Services, 1 Hussar Court, Hillsborough Barracks, Penistone Road, Sheffield, South Yorkshire, S6 2GZ.

16.2 Launch investments

The Department provides specific support to the aerospace industry through Launch Investments. The Department regularly revises its forecasts of sales of the aircraft and engines covered by the Department's portfolio of Launch Investment contracts. These forecasts in turn determine forecasts of income and hence the value of the portfolio as a whole. The historic cost valuation of the investment portfolio at 31 March 2007 was £1,024 million (31 March 2006 £1,060 million). The asset value of the Launch Investment portfolio at 31 March 2007 remains considerably in excess of its historic value.

16.3 Ordinary shares

	Value at 1 April 2006	Additions	Disposals	Revaluation	Value at 31 March 2007
	£'000	£'000	£'000	£'000	£'000
BNFL plc shares	50	–	–	–	50
Royal Mail Holdings plc shares	50	430,273	–	–	430,323
Total	100	430,273	–	–	430,373

The Government owns 100% of the shares in Royal Mail Holdings plc. The Secretary of State owns 50,004 ordinary shares and the Treasury Solicitor holds one ordinary share. During 2006-07 Government purchased 5 ordinary shares in Royal Mail Holdings plc. The primary purpose of this was to inject funds into the company for the specific purpose of covering ongoing financial losses of Post Office Limited (POL). This was to meet Government's existing obligation to cover these losses which forms part of the wider 2002-03 POL funding agreement, approved by the EU Commission. £145 million was paid for losses incurred in 2005-06 and a total of £231 million was paid for losses incurred in 2006-07. A further £54 million formed part of Government's 2006-07 Social Network Payment.

The Secretary of State for Trade and Industry also owns one Special share, relating to certain areas for which Special Shareholder's consent is required, (see Note 16.6). The ordinary shares are shown at historical cost less any provision for impairment.

The Government holds 50,000 ordinary shares in BNFL plc at a nominal value of £1 each. BNFL plc was set up to hold those parts of BNFL that did not pass to the Nuclear Decommissioning Authority (NDA), including, inter alia, British Nuclear Group Sellafield Limited (formerly British Nuclear Fuels). The Secretary of State owns 49,999 ordinary shares and the Treasury Solicitor holds one ordinary share.

16.4 Public Dividend Capital (PDC)

	Value at 1 April 2006	Additions	Redemptions	Revaluation	Impairment	Value at 31 March 2007
	£'000	£'000	£'000	£'000	£'000	£'000
British Shipbuilders	—	5,000	—	—	(5,000)	—
Companies House	15,889	—	—	—	—	15,889
Patent Office	6,325	—	—	—	—	6,325
Total	22,214	5,000	—	—	(5,000)	22,214

British Shipbuilders Corporation requires equity injections to maintain its solvency. The Department makes payments of Public Dividend Capital (PDC), to allow the Corporation to discharge its liabilities under the Aircraft and Shipbuilding Industries Act 1977. Consequently the PDC has been fully impaired. The Department expects to continue to make equity injections to maintain the Corporation's solvency, in accordance with the statement to Parliament of July 1988. The historic value of PDC at 31 March 2007 is £1,603,339,000 (£1,598,339,000 at 31 March 2006).

16.5 Share of net assets and results of bodies outside the consolidation boundary

The Department is required to disclose, for each investment which represents an interest in a subsidiary undertaking, an associate or joint venture which falls outside the Departmental consolidation boundary, the Department's share of the net assets and results of those bodies. This information is summarised below.

	British Energy	Nuclear Liabilities Fund	British Shipbuilders	Patent Office	Companies House	British Nuclear Fuels Ltd	Royal Mail Holdings plc
	£m	£m	£m	£m	£m	£m	£m
Assets	6,383	1,331	3	102	71	3,078	5,285
Liabilities	(4,687)	(1,331)	(87)	(25)	(12)	(2,246)	(8,624)
Net assets/(liabilities)	1,696	—	(84)	77	59	832	(3,339)
Turnover	1,921	47	—	59	72	3,488	9,056
Surplus/profit (deficit/loss) for the year	298	(7)	(1)	11	3	4,313	395

Notes:

- British Energy (BE) information is from the British Energy Group plc's unaudited annual results for the period to 31 March 2007. In the 2006-07 year BE prepared their annual results using International Accounting Standards. For the purposes of this Note, intra-company transactions and balances have not been cancelled. Therefore BE liabilities include amounts for historic contracted spent fuel costs, which are also recognised in these accounts, and BE assets contain receivables from the NLF and Government. The NLF is considered to be a 100% subsidiary of the Department and BE is a 64% quasi-subsidiary of the NLF and hence the Department. These percentages have been applied to the appropriate figures for each body to arrive at the disclosure above.

- NLF information is extracted from their unaudited annual accounts for the year to 31 March 2007. The accounts were prepared in accordance with UK GAAP.
- British Shipbuilders information is derived from the 2005-06 audited annual accounts, as their 2006-07 information is not available. The 2005-06 accounts were prepared in accordance with UK GAAP.
- Patent Office and Companies House information is derived from their unaudited annual accounts for 2006-07. In the 2006-07 year their annual accounts were completed in accordance with the requirements of the *Government Financial Reporting Manual (FrEM)*.
- BNFL information is derived from their 2005-06 audited annual accounts, as their 2006-07 audited accounts are not available. BNFL's accounts were prepared in accordance with UK GAAP.
- During the reporting period, UK Nirex Ltd, a company limited by guarantee (CLG) and owned jointly by the DTI and DEFRA was wound up. The Department no longer owns a share of their net assets. UK Nirex became a full subsidiary of the NDA.
- Royal Mail Holdings plc information is derived from their 2005-06 audited annual accounts as their 2006-07 audited accounts are not available. Their 2005-06 accounts were prepared in accordance with International Accounting Standards (IAS).

16.6 Special shares

In addition, the Secretary of State holds one special share in each of the entities listed below. The list is a summary and does not purport to be a comprehensive record of the terms of each respective shareholding. Further details can be obtained from the annual report and financial statements of each body.

Body in which Share is held and type and value of share	Terms of Shareholding
<p><i>Royal Mail Holdings plc</i></p> <p><i>£1 Special Rights Preference Share</i></p>	<ul style="list-style-type: none"> • Created in January 2001; • It may be redeemed at any time by the shareholder; • The consent of the shareholder is required for a number of decisions, including: <ul style="list-style-type: none"> – Appointing the Chairman of the company, and the remainder of the Board (after consulting the Chairman); – Setting (and approving any material changes in) the remuneration packages of the Directors; – Borrowing in excess of certain pre-set limits (as agreed with HM Treasury); – Adopting and implementing the company's strategic plan; – Disposing of substantial assets of the business or any "relevant subsidiaries" or substantial parts of the business of such subsidiaries; – Voluntary winding-up of any subsidiary; – Varying certain of the company's articles of association, including the rights of the special shareholder.

Body in which Share is held and type and value of share	Terms of Shareholding
<i>British Aerospace plc £1 Special Rights Preference Share</i>	<ul style="list-style-type: none"> • Created in 1985 (but subsequently amended); • No time limit; • Provides for a 15% limit on any individual foreign shareholding, or group of foreign shareholders acting in concert, in the company; • Requires a simple majority of the Board and the Chief Executive to be British; • Requires any Executive Chairman to be British and, if both the Chairman and Deputy Chairman are non-executives, requires at least one of them to be British.
<i>British Energy Group plc £1 Special Share,</i> <i>British Energy Holdings plc £1 Special Share,</i> <i>British Energy Generation Ltd £1 Special Share, and</i> <i>British Energy Ltd £1 Special Share</i>	<ul style="list-style-type: none"> • British Energy Group plc and British Energy Holdings plc Special Shares created on 13 January 2005; • The Special Shares are held jointly by the Secretary of State for Trade and Industry and the Secretary of State for Scotland; • The consent of the Special Shareholder, which can only be refused on grounds of national security, is required for: <ul style="list-style-type: none"> – anyone to purchase more than 15% of British Energy issued shares; and – the disposal of a nuclear power station by British Energy. • British Energy Generation Ltd Special Share created in 1996 is held solely by the Secretary of State for the DTI. His consent is required for the disposal of any of the nuclear power stations owned by it; • British Energy Limited (formerly British Energy plc) Special Share created in 1996 is held by the Secretaries of State for Trade and Industry and for Scotland. However the company has no significant assets or liabilities as a result of the restructuring scheme, which came into effect on 14 January 2005.
<i>Nuclear Liabilities Fund Ltd</i> <i>£1 Special Rights Redeemable Preference Share</i>	<ul style="list-style-type: none"> • Created in 1996; • Secretary of State for Trade and Industry has a special 'A' share (there is also a 'B' share held by British Energy); • Only with the consent of the special shareholder can: <ul style="list-style-type: none"> – any of the provisions in the Memorandum of Association or Articles of Association be changed; – the share capital or the rights attached thereto be altered; – the company create or issue share options; – the 'B' Special Shareholder or any of the Ordinary shareholders dispose or transfer any of their rights in their shares; – the company pass a members voluntary winding-up resolution; – the company recommend, declare or pay a dividend; – the company create, issue or commit to give any loan capital; – the company issue a debenture; – the company change its accounting reference date.

Body in which Share is held and type and value of share	Terms of Shareholding
<i>Rolls Royce Group plc</i>	<ul style="list-style-type: none"> Created in 1987 (but subsequently amended); No time limit;
<i>£1 Special Rights Non-Voting Redeemable Preference Share</i>	<ul style="list-style-type: none"> Provides for a 15% limit on any individual foreign shareholding, or group of foreign shareholders acting in concert, in the company; Requires a simple majority of the Board, including the Chief Executive and any Executive Chairman, to be British; Allows the appointment of a non-British Non-Executive Chairman; Provides for a veto over the material disposal of assets; Provides for a veto of any voluntary winding up.

16.7 BNFL debenture

On 1 April 2005, BNFL issued a debenture for £575 million, bearing an interest rate of 7.5% to the Secretary of State for Trade and Industry, under Schedule 6 of the Energy Act, with a redemption date of 31 March 2012. The purpose of the debenture was to provide a mechanism for returning the proceeds from disposals of the BNFL Group to the Government, and incentivised its management to maximise cash generation and to reduce the outstanding amount of the debenture, so reducing the Group's interest payments.

During 2006-07 BNFL repaid in full the outstanding debenture of £550 million and all accrued interest, following the sale of its Westinghouse subsidiary. All sums received were paid to the Consolidated Fund.

16.8 Other investments and loans

	Value at 1 April 2006	Additions	Redemption	Revaluation	Impairment	Value at 31 March 2007
	£000	£000	£000	£000	£000	£000
Patent Office	1,996	—	(166)	—	—	1,830
Companies House	384	—	(384)	—	—	—
Royal Mail Holdings plc NLF Loan	500,000	—	—	—	—	500,000
Other loans, including OFCOM	12,373	—	(5,187)	—	—	7,186
UK High Technology Fund	15,629	—	(1,123)	—	(175)	14,331
Regional Venture Capital Funds	24,368	4,975	—	—	(7,846)	21,497
Early Growth Fund Investments	9,681	5,914	—	—	(2,366)	13,229
Phoenix Fund Investments	7,978	2,703	(2,239)	—	(777)	7,665
Enterprise Capital Fund	—	3,945	—	—	(1,578)	2,367
Total	572,409	17,537	(9,099)	—	(12,742)	568,105

Loans to Patent Office, Companies House and Royal Mail disclosed above are valued at historic cost.

The investments held by the Department in UK High Technology Fund, Regional Venture Capital Fund, Early Growth Fund, Phoenix Fund and Enterprise Capital Fund are shown at market value. Where there is no readily ascertainable market value then they are shown at fair value or historic cost less impairments. Valuations are taken from the most recent set of annual accounts available for the funds and updated with interim management valuations.

17. Stocks and work in progress

	2006-07 £'000		2005-06 £'000	
	Core Department	Consolidated	Core Department	Consolidated
Stock	2,079	2,158	2,588	2,672
Total	2,079	2,158	2,588	2,672

18. Debtors

18.1 Analysis by type

	2006-07 £'000		(restated) 2005-06 £'000	
	Core Department	Consolidated	Core Department	Consolidated
Amounts falling due within one year:				
Trade debtors	50,171	102,942	47,118	64,019
Other debtors	103,760	103,766	100,960	101,189
HM Revenue & Customs (VAT)	14,697	16,662	14,861	17,006
CFER debtors	46,383	46,383	84,187	84,187
Staff debtors	1,441	2,241	1,546	2,429
Prepayments and accrued income	117,165	119,863	101,807	104,156
Amounts due from the Consolidated Fund in respect of supply	443,176	443,176	256,346	256,346
	776,793	835,033	606,825	629,332
Amounts falling due after more than one year:				
Trade debtors	8,971	—	8,971	—
Total debtors	785,764	835,033	615,796	629,332

18.2 Intra-Government balances

	2006-07 £'000	(restated) 2005-06 £'000
Amounts falling due within one year:		
Balances with other central government bodies	415,294	278,537
Balances with local authorities	237	11
Balances with NHS Trusts	19	21
Balances with public corporations and trading funds	150,548	27,866
<i>Subtotal: intra-government balances</i>	<i>566,098</i>	<i>306,435</i>
Balances with bodies external to government	268,935	322,897
Total debtors at 31 March 2007	835,033	629,332

There are no Intra-Government debtor amounts falling due after more than one year.

19. Current asset investments

	Coal pension investments		Royal Mail Holdings plc		
	BCSSS Debtors	MPS Debtors	Post Office Ltd	BNFL plc NLIP	Total
	£'000	£'000	£'000	£'000	£'000
Balance as at 1 April 2006	501,336	690,124	400,000	3,705,991	5,297,451
Additions	—	—	8,590,000	—	8,590,000
Disposals	—	—	(8,590,000)	(3,705,991)	(12,295,991)
Loan repayments	—	—	—	—	—
Revaluation	335,132	344,063	—	—	679,195
Release of previous revaluation gains	(242,000)	(327,000)	—	—	(569,000)
Balance as at 31 March 2007	594,468	707,187	400,000	—	1,701,655

All investments are held by the core Department.

19.1 BCSSS and MPS debtors

In addition to the Fixed Asset Investments in the two closed pension schemes of the former employees of British Coal, as referred to in detail at Note 16.1, the Department is entitled to half of any surpluses declared by the schemes on the basis of triennial actuarial valuations by the schemes' actuary, the GAD. The Department's share of each surplus is accounted for as a current asset investment and is paid to the Department in annual instalments over 10 years. The GAD completed actuarial valuations of both schemes during 2006-07, which resulted in an addition to the current asset investment related to each scheme and an increase in the annual payments to the Department previously expected. The Department has estimated the change in the market value of the investments on the basis of statements and updated interim valuations provided by the schemes.

19.2 Royal Mail Holdings plc and Post Office Ltd

The Department has also made available to Post Office Limited (POL), through an agreement reached on 17 October 2003, a revolving loan facility based on commercial terms of up to £1.15 billion. This is to help the company fund its working capital requirements in light of the migration of state benefits to a system of direct payment and the loss of pre-funding to POL from the Department of Work and Pensions, alongside a Government commitment that benefit recipients will still be able to collect their benefit, in cash and in full, from post office branches. POL began utilising this facility on 1 December 2003. The facility matures on 31 March 2010 by when any outstanding amounts will need to have been repaid. The outstanding balance on 31 March 2007 was £400 million.

19.3 BNFL – Nuclear Liabilities Investment Portfolio (NLIP)

Following the transfer of the responsibility for the discharge of the nuclear liabilities to the Nuclear Decommissioning Authority (NDA), the Nuclear Liabilities Investment Portfolio and the Springfield Investments (known together as the NLIP) held by BNFL passed to HM Government. The investment was remitted to the Secretary of State for return to the Consolidated Fund once sold. The market valuation of the NLIP, as at 31 March 2006, was £3,706 million. The portfolio was fully liquidated during 2006-07. The amount realised from the sale was £3,767 million, which was received in two payments. This was in addition to the £700 million received in 2005-06.

The amount realised was in excess of the amount expected on liquidation of the funds and resulted in an additional £64 million being paid to the Department. All sums received were transferred immediately to the Consolidated Fund.

20. Cash at bank and in hand

	2006-07 £'000		2005-06 £'000	
	Core Department	Consolidated	Core Department	Consolidated
Balance as at 1 April	510,506	553,279	454,480	473,265
Net change in cash balances	(27,940)	(26,158)	56,026	80,014
Balance as at 31 March	482,566	527,121	510,506	553,279
The following balances at 31 March were held at:				
Offices of HM Paymaster General	480,934	489,031	505,385	518,130
Cash in hand and commercial banks	1,840	38,298	5,592	35,620
Balance as at 31 March 2007	482,774	527,329	510,977	553,750
Less overdraft	(208)	(208)	(471)	(471)
Total	482,566	527,121	510,506	553,279

21. Creditors

21.1 Analysis by type

	2006-07 £'000		(restated) 2005-06 £'000	
	Core Department	Consolidated	Core Department	Consolidated
Amounts falling due within one year:				
Other taxation and social security	40	40	953	953
Trade creditors	33,920	34,011	34,778	34,833
Commercial bank overdraft	208	208	471	471
Other creditors	98,809	101,933	124,080	125,668
BNFL NLIP creditors	—	—	3,705,991	3,705,991
Accruals and deferred income	272,287	318,212	255,158	286,903
Consolidated Fund Extra Receipts due to be paid to the Consolidated Fund:				
Received	970,298	970,298	809,626	809,626
Receivable	46,383	46,383	84,187	84,187
	1,421,945	1,471,085	5,015,244	5,048,632
Amounts falling due after more than one year:				
Trade creditors	—	—	550,153	550,153
Accruals and deferred income	40,934	41,072	44,386	44,711
NLF loans	500,000	500,000	500,000	500,000
	540,934	541,072	1,094,539	1,094,864
Total creditors	1,962,879	2,012,157	6,109,783	6,143,496

21.2 Intra-Government balances

	Amounts falling due within one year:		Amounts falling due after more than one year:	
	(restated)		(restated)	
	2006-07 £'000	2005-06 £'000	2006-07 £'000	2005-06 £'000
Balances with other central government bodies	1,311,999	1,043,770	500,000	500,000
Balances with local authorities	31,082	1,840	—	—
Balances with NHS Trusts	—	9	—	—
Balances with public corporations and trading funds	898	3,706,153	—	—
<i>Subtotal</i> intra-government balances	1,343,979	4,751,772	500,000	500,000
Balances with bodies external to government	127,106	296,860	41,072	594,864
Total creditors at 31 March	1,471,085	5,048,632	541,072	1,094,864

22. Provisions for liabilities and charges – Coal

	Health-Related Provisions			Non-Health Provisions		Total
	COPD	VWF	Other	Concessionary Fuel	Other	
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 April 2006	1,209,780	399,333	263,328	351,743	84,774	2,308,958
Amortisation of one year's discount	26,615	8,785	5,793	7,738	1,865	50,796
Increase/(decrease) in provision	(32,043)	84,027	(5,921)	92,189	(3,279)	134,973
Expenditure in year	(521,983)	(219,417)	(82,085)	(47,125)	(3,266)	(873,876)
At 31 March 2007	682,369	272,728	181,115	404,545	80,094	1,620,851

All provisions for liabilities and charges relate to the core Department.

The time scale, over which it is estimated the discounted costs will need to be incurred, is as follows:

	2006-07 £m	2005-06 £m
Within 1 year	856.6	1,024.0
Between 2 to 5 years	526.0	1,091.0
Beyond 5 years	238.3	194.0
Total	1,620.9	2,309.0

22.1 Health-related provisions

Health liabilities make up by far the largest proportion of the coal provision. Responsibility for the compensation claims relating to personal injuries suffered by former British Coal mineworkers transferred to the Department on 1 January 1998 by a restructuring scheme under the Coal Industry Act 1994.

The introduction of cut off dates in both the Chronic Obstructive Pulmonary Disease (COPD) and the Vibration White Finger (VWF) schemes has reduced significantly the uncertainty of volumes going forward, however the forecast is very vulnerable to factors such as capacity planning and inactive claims.

Chronic Obstructive Pulmonary Disease (COPD)

These liabilities arise from claims relating to respiratory diseases such as emphysema and chronic bronchitis, caused by exposure to mine dust and fumes. The expected discounted liability over the next 2 years is £682 million, the undiscounted amount being £695 million. This scheme closed on 31 March 2004 and no further claims are being accepted.

Vibration White Finger (VWF)

These liabilities arise from claims relating to damage caused by the prolonged use of vibratory tools. The expected claims total to a discounted amount of around £273 million over the next 2 years (2005-06: £399 million). The corresponding undiscounted amount is £276 million. This scheme is closed to new claims.

Other health provisions

This provision incorporates other injury-related compensation claims such as Noise Induced Hearing Loss (NIHL), accidents and miscellaneous diseases including asbestos related conditions, dermatitis, cancer and rheumatic diseases. It also covers payments under British Coal's Pneumoconiosis Compensation Scheme and associated administration costs of managing the health claims. The undiscounted amount of these provisions is £196 million (2005-06: £270 million). Most claims will be settled within 3 years but some will continue until 2048.

22.2 Non-health provisions

Concessionary fuel

The Department has a responsibility to provide either solid fuel or a cash alternative to over 102,000 beneficiaries. Approximately three quarters of these have opted for the cash alternative at an average of around £400 per annum, compared with the average annual solid fuel cost to the Department of around £750 per beneficiary. The number of beneficiaries is decreasing at around 7% per year and therefore the liability will continue for several decades. The provision is based on standard female mortality rates and includes an assumption of beneficiaries continuing to switch their entitlement from solid fuel to cash at a constant rate of 9% for National Concessionary Fuel Association beneficiaries and 8% for British Association of Colliery Miners beneficiaries.

Site restoration and other

The Department has inherited the liabilities from British Coal to reimburse English Partnerships with the minimum costs necessary to meet statutory environmental standards whilst restoring contaminated sites no longer required for coal purposes.

The Avenue Cokeworks near Chesterfield is one of four sites on which this liability has been called. The expected discounted liability over the next 3 years is £65.2 million (2005-06: £64.7 million). The deadline for this liability has now passed and therefore no new liabilities can arise in the future, however existing liabilities may in some circumstances increase in value.

Also included under this heading are provisions relating to costs for the administration of non-health related liabilities and indemnities issued at privatisation.

23. Provisions for liabilities and charges – Nuclear

	UKAEA decommissioning	British Energy	Consolidated Total
	£'000	£'000	£'000
At 1 April 2006	158,264	2,416,685	2,574,949
Amortisation of one year's discount	3,482	53,167	56,649
Increase/(decrease) in provision	(4,153)	112,864	108,711
Expenditure in year	—	(196,389)	(196,389)
At 31 March 2007	157,593	2,386,327	2,543,920

All provisions for liabilities and charges relate to the core Department.

23.1 United Kingdom Atomic Energy Authority (UKAEA) decommissioning provisions

The Department retains the liability to cover the costs of the decommissioning of the UKAEA Culham site and the 31 March 2007 balance reflects the estimated and discounted future costs for this.

Calculation of the liabilities is based on the technical assessments of the processes and methods likely to be used in the future to carry out the work. Estimates are derived using the latest technical knowledge and commercial information available and take account of current legislation, regulations and government policy. Summary figures are built up by aggregating detailed estimates for individual liabilities. Allowance is also made for infrastructure costs, which are an appropriate share of running costs and other overhead costs attributable to plant and buildings. The calculation is re-assessed annually. Since much of the work will not be done until well into the future, there is considerable uncertainty as to the likely costs.

The time scale over which it is estimated the discounted costs will need to be incurred is as follows:

	2006-07 £m	2005-06 £m
Within 1 year	0.9	0.9
Between 2 to 5 years	32.3	53.8
Beyond 5 years	124.4	103.6
Total	157.6	158.3

23.2 British Energy

As a result of the restructuring of British Energy (BE) in January 2005 the Government assists BE in meeting its contractual historic fuel liabilities. The provision is based on the forecast payment schedule up to 2029 which is set out in the waste processing contracts agreed between BE, BNFL and the Department. The costs are estimated to be £200m (undiscounted at March 2007 prices) for the next seven years. Amounts are then expected to fall each year thereafter.

The time scale over which it is estimated the discounted costs will need to be incurred is as follows:

	2006-07 £m	2005-06 £m
Within 1 year	198	189
Between 2 to 5 years	751	717
Beyond 5 Years	1,437	1,511
Total	2,386	2,417

24. Provisions for liabilities and charges – Other

	Core Department						Consolidated					
	SFLG	UKAEA restructuring	Early retirement	British Shipbuilders	Other	Total	SFLG	UKAEA restructuring	Early retirement	British Shipbuilders	Other	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
(restated)												
At 1 April 2006	182,165	37,027	35,035	82,400	33,592	370,219	182,165	37,027	42,380	82,400	35,930	379,902
Amortisation of one year's discount	4,008	815	769	1,813	—	7,405	4,008	815	771	1,813	—	7,407
Increase/(decrease) in provision	32,730	(380)	30,295	(5,000)	(4,790)	52,855	32,730	(380)	31,423	(5,000)	(3,057)	55,716
Expenditure in year	(85,469)	(4,616)	(12,175)	—	(7,954)	(110,214)	(85,469)	(4,616)	(14,195)	—	(8,235)	(112,515)
At 31 March 2007	133,434	32,846	53,924	79,213	20,848	320,265	133,434	32,846	60,379	79,213	24,638	330,510

24.1 Small Firms Loan Guarantee (SFLG)

The SFLG is the Department's main instrument for supporting debt finance for business. By providing a Government backed guarantee, the scheme exists to enable lenders to assist small business with viable business proposals gain access to finance where they lack security or credit history.

The provision is based on the expected value of defaults of all outstanding loans and has been discounted at HM Treasury rate of 2.2%. The undiscounted liability is £139 million (2005-06: £188 million), which is expected to be utilised over the next eight years.

24.2 UKAEA restructuring

Restructuring costs cover the continuing annual payments for staff that took early retirement primarily before the privatisation of AEAT in 1996 will continue until they reach retirement age.

In addition, where former staff are entitled to enhancements, these will be paid for the duration of the pensioner's life.

24.3 Early retirement

The Early Retirement Provision provides for the future costs of staff departing under voluntary early retirement schemes.

The provision is required in order to meet pension enhancement and severance costs for staff departing under these schemes, with the liabilities extending for up to 10 years.

24.4 British Shipbuilders

British Shipbuilders has liabilities arising from personal injury to former employees resulting from exposure to asbestos during the course of their work. The Department has taken responsibility for the liabilities of British Shipbuilders Corporation to the extent that they cannot be met from the residual funds of the Corporation. The undiscounted liability is £97.8 million. The current estimate is that the liabilities will extend for up to 20 years.

In the light of significant uncertainty associated with asbestos claims, there can be no guarantee that the assumptions used to estimate the provisions for the cost of resolving asbestos claims will be an accurate prediction of the actual cost that may be incurred and as a result the provisions will be reviewed annually as additional information becomes available and trends change. Further information can be found in the British Shipbuilders accounts.

The time scale over which the discounted costs will need to be incurred is:

	2006-07 £m	2005-06 £m
Within 1 year	5.8	2.3
Between 2 to 5 years	19.1	18.7
Beyond 5 years	54.3	61.4
Total	79.2	82.4

24.5 Other

This relates to a range of liabilities arising from the Department's normal business. It includes agency provisions arising through consolidation and provisions for various other Departmental programmes and administration costs.

25. General fund

The General fund represents the total assets less liabilities of each of the entities within the accounting boundary, to the extent that the total is not represented by other reserves and financing items.

	2006-07 £'000		(restated) 2005-06 £'000	
	Core Department	Consolidated	Core Department	Consolidated
Balance at 1 April 2006	(3,410,524)	(3,383,673)	(15,818,056)	(15,913,461)
Net parliamentary funding:				
Drawn down	6,931,681	6,931,681	6,586,555	6,586,555
Deemed	—	—	279,570	279,570
Non supply expenditure funded by the National Insurance Fund	204,643	204,643	252,733	252,733
Year end adjustment:				
Supply creditor/(debtor) – current year	443,176	443,176	256,346	256,346
Net transfer from operating activities:				
Net operating cost	(4,273,937)	(4,266,084)	(5,661,004)	(5,643,980)
CFERs repayable to Consolidated Fund	(1,848,720)	(1,848,720)	(456,725)	(456,725)
Increase in RPS debtors	9,968	9,968	12,811	12,811
Non cash charges:				
Cost of capital	(197,061)	(196,567)	(362,357)	(361,737)
Auditors' remuneration	266	321	242	293
Transfer from revaluation reserve (see Note 26)	574	592	315	337
Transfer of assets/liabilities to NDA	—	—	11,601,134	11,601,134
Deferred income for 3G licence fee	—	—	2,451	2,451
ACAS Government Grant Reserve	—	7,451	—	—
INSS asset transfer	—	40	16,726	—
Agency notional funding	—	—	(121,265)	—
Balance at 31 March 2007	(2,139,934)	(2,097,172)	(3,410,524)	(3,383,673)

26. Revaluation reserve

2006-2007											(restated) 2005-2006
Core						Consolidated					Core Consolidated
Fixed Assets	Launch Investment	Coal Pensions	Phoenix Fund	Total		Fixed Assets	Launch Investment	Coal Pensions	Phoenix Fund	Total	Total Total
£'000	£'000	£'000	£'000	£'000		£'000	£'000	£'000	£'000	£'000	£'000 £'000
(restated)											
Balance at 1 April 2006	9,743	245,029	2,919,836	4,930	3,179,538	10,721	245,029	2,919,836	4,930	3,180,516	3,191,945 3,192,715
Arising on revaluation during the year (net)	8,551	38,657	1,974,866	(777)	2,021,297	8,364	38,657	1,974,866	(777)	2,021,110	556,202 556,431
CFERs realised	–	(117,609)	–	–	(117,609)	–	(117,609)	–	–	(117,609)	(115,517) (115,517)
Transfer to the general fund of realised element of revaluation reserve (see Note 25)	(574)	–	–	–	(574)	(592)	–	–	–	(592)	(315) (337)
Coal Pensions – Surplus Released	–	–	(579,077)	–	(579,077)	–	–	(579,077)	–	(579,077)	(452,776) (452,776)
Balance at 31 March 2007	17,720	166,077	4,315,625	4,153	4,503,575	18,493	166,077	4,315,625	4,153	4,504,348	3,179,539 3,180,516

The fixed asset revaluation reserve reflects the unrealised element of the cumulative balance of indexation and the revaluation adjustments of tangible fixed assets (see Notes 14 and 15).

The Launch investment revaluation reserve reflects the unrealised element of the cumulative balance of the revaluation adjustments to Launch Investment (see Note 16).

The coal pensions revaluation reserve reflects the cumulative balance of revaluation adjustments of the fixed and current asset investments in pension schemes of former employees of British Coal (see Notes 16 and 19 for more detail).

27. Notes to the Consolidated Cash Flow Statement

27.1 Reconciliation of operating cost to operating cash flows

	Note	2006-07 £'000	(restated) 2005-06 £'000
Net Operating Costs	3.1	(4,266,084)	(5,643,980)
Adjustment for non-cash transactions	10.1	209,044	32,698
(Increase)/decrease in Stock	17	514	(493)
(Increase)/decrease in Debtors	18	(205,701)	(330,765)
Less movements in debtors relating to items not passing through the operating cost statement	18	187,484	315,870
Increase/(decrease) in Creditors	21	(4,131,339)	4,599,690
Less movements in creditors relating to items not passing through the operating cost statement	21	4,140,167	(4,607,690)
Use of provision	4	(1,182,780)	(1,381,548)
Non-cash expenditure funded by the National Insurance Fund	3.1	204,643	252,733
Interest received from Royal Mail Holdings plc on NLF loan	3.1	(29,170)	(29,170)
Interest paid to NLF on loan to Royal Mail Holdings plc	3.1	29,170	29,170
Net Cash Inflow/(Outflow) from Operating Activities		(5,044,052)	(6,763,485)

27.2 Analysis of capital expenditure and financial investment

	Note	2006-07 £'000	(restated) 2005-06 £'000
Intangible fixed asset additions	15	(153)	(175)
Tangible fixed asset additions	14	(33,180)	(36,307)
Proceeds on disposal of fixed assets		2	43
Launch Investments receipts		35,965	28,488
Other Investments redeemed		9,099	19,704
Loan redeemed from Post Office Limited	19	8,590,000	15,197,774
Investments made to other bodies	16	(452,810)	(29,615)
Loan made to Post Office Limited	19	(8,590,000)	(15,077,774)
Net Cash Inflow/(Outflow) from Investing Activities		(441,077)	102,138

27.3 Analysis of capital expenditure and financial investment by Request for Resources (RfRs)

	Capital Expenditure	Loans etc	A in A	Net Total
	£'000	£'000	£'000	£'000
Request for Resources 1	(32,893)	(9,042,810)	8,635,610	(440,093)
Request for Resources 2	–	–	–	–
Net movement in debtors/creditors	(440)	–	(544)	(984)
Total 2006-07	(33,333)	(9,042,810)	8,635,066	(441,077)
Total (restated) 2005-06	(36,482)	(15,107,389)	15,246,009	102,138

27.4 Analysis of financing

	Note	2006-07 £'000	(restated) 2005-06 £'000
From the Consolidated Fund (Supply) – current year		6,931,681	6,586,555
From the Consolidated Fund (Supply) – prior year		256,346	–
NLF Loans – interest received from Royal Mail Holdings plc	27.1	29,170	29,170
NLF Loans – interest paid to the NLF	27.1	(29,170)	(29,170)
From the National Insurance Fund	27.1	204,643	252,733
Redundancy payments	11	(204,643)	(252,733)
Net financing		7,188,027	6,586,555

27.5 Reconciliation of net cash requirement to increase/(decrease) in cash

	Note	2006-07 £'000	(restated) 2005-06 £'000
Net cash requirement	4	(7,374,857)	(7,122,472)
From the Consolidated Fund (Supply) – current year	27.4	6,931,681	6,586,555
From the Consolidated Fund (Supply) – prior year	27.4	256,346	–
Amounts due to the Consolidated Fund – received in a prior year and paid over	21.1	(809,626)	(193,695)
Amounts due to the Consolidated Fund – received and not paid over	21.1	970,298	809,626
Increase/(decrease) in cash		(26,158)	80,014

28. Notes to the Consolidated Statement of Operating Costs by Departmental Aim and Objectives

The Consolidated Statement of Operating Costs by Departmental Aim and Objectives reports expenditure and income against each of the Department's four objectives.

The costs comprise direct administration and programme costs derived from those front-line Departmental groups where activities are directly related to delivering the Department's objectives, together with an element of apportioned expenditure. Staff numbers are used as the basis of apportionment of those costs that do not directly relate to specific objectives but contribute to or enable the delivery of all objectives. In the main these costs relate to the provision of corporate services. Deployment of capital by objective is derived using the same method.

28.1 Programme grants and other current expenditures have been allocated as follows:

	2006-07 £'000	(restated) 2005-06 £'000
Promoting world class science and innovation	3,440,691	3,339,663
Supporting successful business	2,337,512	2,425,188
Ensuring fair markets	628,634	728,658
Secure, sustainable, affordable energy	2,648,339	2,225,251
Total	9,055,176	8,718,760

28.2 Capital employed by Departmental aim and objectives at 31 March 2007

	2006-07 £'000	(restated) 2005-06 £'000
Promoting world class science and innovation	300,117	461,605
Supporting successful business	2,750,715	2,192,130
Ensuring fair markets	359,256	(81,880)
Secure, sustainable, affordable energy	(1,002,912)	(2,775,012)
Total	2,407,176	(203,157)

29. Capital commitments

	2006-07 £'000		2005-06 £'000	
	Core Department	Consolidated	Core Department	Consolidated
Contracted capital commitments at 31 March 2007 for which no provision has been made	4,609	4,609	7,589	9,577

30. Commitments under leases

30.1 Operating leases

Commitments under operating leases to pay rentals during the 2007-08 financial year are given in the table below, analysed according to the period in which the lease expires.

	2006-07 £'000		(restated) 2005-06 £'000	
	Core Department	Consolidated	Core Department	Consolidated
Obligations under operating leases comprise:				
Land and buildings:				
Expiry within 1 year	33	176	173	357
Expiry after 1 year but not more than 5 years	138	3,005	174	2,950
Expiry thereafter	39,367	46,868	37,520	45,633
	39,538	50,049	37,867	48,940
Other:				
Expiry within one year	22	69	63	110
Expiry after 1 year but not more than 5 years	214	435	181	506
Expiry thereafter	—	—	—	—
	236	504	244	616

31. Commitments under PFI contracts

31.1 Off-balance sheet contract

During the 2006-07 financial year the Department had an off-balance sheet PFI contract, the 'ELGAR Service PFI Agreement'. The contract operator is Fujitsu Services.

31.2 Charge to the Operating Cost Statement and future commitments

The total amount charged to operating costs in 2006-07 was £34 million (2005-06 £31 million); see Notes 10 and 11. The payments to which the Department is committed during 2007-08, analysed by the period during which the commitments expire, are as follows.

	2006-07 £'000		2005-06 £'000	
	Core Department	Consolidated	Core Department	Consolidated
Expiry within 1 year	—	—	—	—
Expiry within 2 to 5 years	2,108	2,108	2,058	2,058
Expiry within 6 to 10 years	28,000	32,944	30,000	47,442
	30,108	35,052	32,058	49,500

31.3 ELGAR contract details

Description of the contract

The ELGAR contract covers the provision of a wide range of information systems and services to the Department, including infrastructure management, IT development, business process re-engineering, consultancy advice and technology refresh.

Over the seven remaining years of the contract the payments are expected to amount to around £189 million for the core Department.

Estimated capital value

The estimated cumulative capital value of the contract is £26.3 million.

Contract start and end dates

The contract was awarded in November 1998 for a period of 10 years, extendable for up to a further 5 years. The contract is now set to expire on 31 March 2014.

Other obligations

The Department has a responsibility to pay termination charges should the Department exercise its break option before the agreed service end date. These amount to £49.8 million, comprising £11.8 million for the core service, £21.5 million for the Department's electronic records management system and an additional £16.5 million for other (extended) services.

The Insolvency Service (INSS), which is an executive agency whose results are consolidated into these accounts, also has contracts with ELGAR for the provision of IT services. Further details can be found in the separate resource accounts of this body.

32. Other financial commitments

The Department has entered into non-cancellable contracts (which are not leases or PFI contracts), for subscriptions to international bodies. The payments to which the Department is committed during 2007-08, analysed by the period during which the commitment expires are as follows:

	2006-07 £'000		2005-06 £'000	
	Core Department	Consolidated	Core Department	Consolidated
Expiry within 1 year	—	—	117	117
Expiry within 2 to 5 years	14,677	14,677	—	—
Expiry thereafter	68,534	68,534	63,510	63,510
	83,211	83,211	63,627	63,627

32.1 The amounts disclosed above are for subscriptions paid to the following bodies:

Organisation	Note	Expiry within 1 Year £'000	Expiry within 2 to 5 Years £'000	Expiry over 5 years £'000	Total £'000
European Space Agency	a	–	–	62,532	62,532
International Atomic Energy Agency	b	–	10,995	–	10,995
World Trade Organisation	c	–	–	4,262	4,262
Organisation for the Prohibition of Chemical Weapons	d	–	3,252	–	3,252
International Energy Agency	e	–	–	645	645
Bureau International des Poids et Mesures (BIPM)	f	–	–	595	595
Nuclear Energy Agency	g	–	430	–	430
European Energy Charter	h	–	–	340	340
UNIDROIT	i	–	–	80	80
The international Organisation of Legal Metrology (OIML)	j	–	–	35	35
Organisation for Economic Co-operation and Development Steel Committee	k	–	–	35	35
EUROMET	l	–	–	5	5
Hallmarking Convention	m	–	–	5	5
Total		–	14,677	68,534	83,211

Notes:

- The European Space Agency (ESA)* carries out civil space programmes for its Member States, including the UK. The Department's contributions cover part of the Agency's general budget, which is, under the ESA Convention, mandatory for all Member States, who share it in proportion to net national income at factor cost. The UK contribution is shared between the Department and the Research Councils, which also take part in the programmes of the Agency, broadly in proportion to their shares in the total UK funding of the Agency. In 2006-07, the Research Councils concerned were Particle Physics and Astronomy Research Council (PPARC) and Natural Environment Research Council (NERC). The Department's contributions also cover the UK's share of those individual "optional" programmes of the Agency to which the UK has committed funding, which are directed towards industrial and commercial objectives.
- The International Atomic Energy Agency (IAEA)* serves as the world's central inter-governmental forum for scientific and technical co-operation in the peaceful use of nuclear technology. A specialised agency within the United Nations system, the IAEA headquarters are in Vienna. Established as an autonomous organisation under the United Nations (UN) in 1957, the IAEA represents the culmination of international efforts to make a reality of US President Eisenhower's proposal in his Atoms for Peace speech before the UN General Assembly in 1953, where he envisioned the creation of an international body to control and develop the use of atomic energy. By 29 July 1957, eighteen States had ratified the Statute of the IAEA thus bringing it into force and now the Agency's broad spectrum of services, programmes, and activities is based on the needs of its 144 Member States.
- The Department is responsible for the payment of the UK's annual contribution to the *World Trade Organisation (WTO)*, which deals with the global rules of trade between

nations. Its main function is to ensure that international trade flows as smoothly, predictably and freely as possible. As a member of the WTO the UK, like other members, has a legal commitment to pay a contribution to the cost of running the WTO Secretariat, which is based in Geneva. The UK's share is calculated on the basis of our international trade in relation to the total international trade of all WTO members.

- d) *The Chemical Weapons Convention (CWC)*, which came into force on 29 April 1997, is the first arms control treaty which seeks to introduce a verifiable ban on an entire class of weapons of mass destruction. It is administered by the Organisation for the Prohibition of Chemical Weapons (OPCW), which is based in The Hague. As of 6 April 2007 the OPCW had 182 State Parties. DTI as the UK National Authority, is responsible for the implementation of the CWC in the UK. The powers to implement the declaration and verification provisions in the CWC are contained in the Chemical Weapons Act 1996.
- e) *The International Energy Agency (IEA)* is the energy adviser arm of OECD. It is an internationally recognised centre of excellence. As energy has risen up the political agenda so has the profile of the IEA. The Agency is one of the most important global energy organisations; it is key to overseeing, and analysing, global security of supply and is increasingly influencing the climate change agenda, playing an integral part in the Gleneagles dialogue and in delivering our G8 agenda. It also prepares member countries to take action in emergency situations, such as Hurricanes Katrina and Rita, and encourages good practice in energy policy worldwide. The UK's subscription supports these objectives.
- f) *The Bureau International des Poids et Mesures'* mandate is to provide the basis for a single, coherent system of measurements throughout the world, traceable to the international System of Units (SI). The annual subscription has been payable since the Government signed up to the Metre Convention circa 1888.
- g) The Department pays the UK's annual contribution to *the Nuclear Energy Agency (NEA)* on behalf of a number of Departments and Agencies that participate in the NEA's work. The NEA is an internationally recognised non-promotional organisation providing a forum for addressing and disseminating information on technical scientific and economic issues affecting nuclear energy globally.
- h) The Department is responsible for the UK's subscription to the *Energy Charter Treaty (ECT)*, which strives towards open, efficient, sustainable and secure energy markets and promotes a constructive climate conducive to energy interdependence on the basis of trust between nations. The main aim of the ECT is to liberalise energy trade, transit and investment within and between its (mainly Eurasian) signatory countries. This is an aim which the UK strongly supports.
- i) The Department pays an annual contribution towards the running of the *International Institute for the Unification of Private Law (UNIDROIT)*. UNIDROIT is an independent intergovernmental organisation with its seat in Rome. Its purpose is to study needs and methods for modernising, harmonising and co-ordinating private and in particular commercial law as between States and groups of States.
- j) *The International Organisation of Legal Metrology (OIML)* promotes the global harmonisation of legal metrology procedures. It provides its members with metrological guidelines for the elaboration of national and regional requirements concerning the manufacture and use of measuring instruments for legal metrology application. The

payment is made on behalf of the National Weights and Measures Laboratory and is a requirement of their international legal metrology role.

- k) The *Organisation for Economic Co-Operation and Development (OECD) Steel Committee* is the international forum established to discuss steel industry issues such as production trends, trade flows and issues, market developments and environmental issues. The Department provides funding as a contribution to the work of the Committee, which is attended by both OECD and non-OECD members.
- l) EUROMET is a co-operative voluntary organisation between the National Metrology Institutes (NMIs) in the EU including the European Commission, EFTA and EU Accession States. The objective of EUROMET is to promote the co-ordination of metrological activities and services with the purpose of achieving higher efficiency. EUROMET was formally established by the signing of a Memorandum of Understanding (MOU) by participating States in Madrid, Spain on 23 September 1987 to become operative from 1 January 1988. The Department makes an annual payment on behalf of the National Physical Laboratory, which is a requirement of their international metrology role.
- m) The UK is a member of the *Convention on the Control and Marking of Articles of Precious Metals (Hallmarking Convention)*, which facilitates the cross border trade of independently marked precious metal articles. The UK recognises Convention hallmarks from 12 member countries. Goods marked with Convention hallmarks can be imported and sold in the UK without the need for additional UK hallmarking.

Other – from 2006-07 the Department did not subscribe to the following bodies:

- Following on from the UK's accession to the *United Nations Convention on the Law of the Sea*, the UK has a legal commitment to provide a proportion of the running costs of the Convention. The total UK contribution is shared between those Departments with a significant interest in the Convention. The Department did not subscribe in 2006-07, and does not intend to in the future.
- *The International Lead & Zinc Study Group* is an UN-affiliated group set up to bring transparency to the global lead and zinc markets. The Group's HQ moved from London to Lisbon in January 2006. The Department was previously responsible for the UK's annual subscription, however the UK resigned from the group with effect from 31 December 2006.
- *The International Nickel Study Group (INSG)* is an autonomous, intergovernmental organisation established in 1990. Membership comprises nickel producing, consuming and trading countries. The Department made payments to cover the UK annual membership fee for this UN affiliated Group, based in Lisbon and sharing its HQ with the International Lead Zinc Study Group. The Department has now ceased paying the subscription but for 2007 the industry itself is funding the payment so the UK retains membership for at least one more year.
- *The Universal Postal Union (UPU)* is the United Nations Agency, which is the primary forum for co-operation between postal service providers. The UK's membership of the UPU enables its national postal service operator, Royal Mail, to participate in the worldwide network of postal operators, to enter into agreements for the exchange of international mail, and to exchange and develop experiences of best practice in postal operations. From 2006-07 the annual subscription for UPU membership was paid by the Royal Mail.

33. Financial instruments

FRS 13, *Derivatives and Other Financial Instruments*, requires disclosure of the role that financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities.

Due to the largely non-trading nature of its activities and the way in which Government Departments are financed, the Department is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. Generally, financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the Department in undertaking its activities.

The Department's financial instruments comprise of cash, loans, investments, public dividend capital, provisions, trade debtors and trade creditors. Details of these can be found in the relevant notes.

33.1 Liquidity risk

Resources are voted annually by Parliament to finance the Department's net revenue resource requirements and its capital expenditure and there is therefore no exposure to significant liquidity risks.

33.2 Interest rate risk

The Department does not access funds from commercial sources and so is not exposed to significant interest rate risk.

33.3 Foreign currency risk

The Department had insignificant exposure to foreign currency risk during the year. Foreign currency income was negligible and foreign currency expenditure was a very small percentage of total expenditure.

There is no material difference between the fair values and book values of the Department's financial instruments.

Short-term debtors and creditors have been excluded from the above disclosures, as allowed by FRS 13.

34. Contingent liabilities and assets disclosed under FRS 12

Basis of Recognition	Description
<p><i>Coal Industry Act 1994</i></p>	<p>Any liabilities of British Coal in respect of industrial injury to its former employees between 1947 and 31 December 1994, the timing and amounts of which are uncertain at this time. The liabilities arise through the various health claims that have been made by former and current employees of British Coal. The uncertainty is due to two factors:</p> <ul style="list-style-type: none"> a) the nature of any injury; and b) whether the courts decide that compensation is due. <p>Given recent history, the fact that the burden of proof rests with the plaintiff and that the compensation level is determined on a case-by-case basis, there is a high level of uncertainty relating to either the amount of the payments due or whether they are likely to be paid. This uncertainty is also referred to in the Coal Provisions note (Note 22). Over time, it is likely that a more accurate estimate of the expected costs to be borne by the Department will become available.</p> <p>Also, there is a contingent asset as a result of a judge's decision in favour of the Department on 3 April 2007 regarding the fees awarded to solicitors to deal with Coal Health Fast Track Offers. There will be a reduction in tariffs for fast track claims which will save the Department approximately £100 million. £75 million of this sum will be recouped from solicitors in respect of overpayments made on past settlements. The Department is currently in the process of agreeing an effective mechanism for recovery of these overpayments and are expecting to recover most of the money during 2007-08.</p>
<p><i>British Energy</i></p>	<p>The following contingent liabilities arise from the Department's support for British Energy (BE):</p> <ul style="list-style-type: none"> a) Uncontracted and Decommissioning Liabilities <p>British Energy Nuclear Liabilities. As part of the restructuring of BE, completed on 14 January 2005, the Department assumed responsibility for these liabilities to the extent that the NLF is insufficient to meet liabilities as they fall due. Once the NLF has discharged all liabilities for which it is responsible, any surplus remaining in the Fund would be payable to the Government.</p> <p>There is a high level of uncertainty relating to possible future cash flows which the Department might need to make. This is dependent on BE's estimates for the costs of meeting their decommissioning and uncontracted liabilities which may be revised year on year. The BE cash sweep payment is difficult to forecast as it is dependent upon the performance of the company. As such it is hard to quantify whether this represents a contingent liability or asset. On the basis of Department's current estimate of the assets available to the NLF to meet its liabilities (£6.4 billion: 2006 £8.1 billion) and BE's unaudited estimate for decommissioning and uncontracted liabilities (£4.3 billion: 2006 £4.0 billion) there is a contingent asset of £2.1 billion (2006: £4.1 billion). The liabilities figure is subject to review by the NDA, the results of which had not been received at the time of finalising these accounts.</p> <ul style="list-style-type: none"> b) Trustee Indemnities <p>Indemnities have been given to the three trustees of the NLF appointed by the Secretary of State. Indemnities have also been given to the two BE appointed trustees of the NLF against personal liability following any legal action against the Fund. These indemnities can only be used following failed recourse to an indemnity given by BE.</p>
<p><i>Nuclear</i></p>	<p>The Department has a range of civil nuclear liabilities arising through its association with UKAEA and NDA as well as ensuring that the Government complies with its obligations under the various international nuclear agreements and treaties. The amount and timing of this overarching liability is not quantifiable.</p>
<p><i>Health and Safety</i></p>	<p>There is a possibility of claims arising from former employees for compensation for industrial injury or disease allegedly arising from a period of employment at one or other of the former research establishments of the Department. The timing and amount of such claims are not quantifiable.</p>

Basis of Recognition	Description
<p><i>Postal Services Act 2000</i></p>	<p>The Royal Mail financing package agreed on 20 December 2002 was amended and restated and a new financial agreement was finalised on 23 March 2007. The effect being that the existing facility (which Royal Mail did not utilise) to buy a bond of up to £300 million issued by Royal Mail, has been cancelled and replaced by a facility provided by the National Loans Fund.</p> <p>The Department has agreed to provide a "Shareholder Loan" which is subordinated credit facility of up to £300 million that will be available to Royal Mail until 22 March 2009.</p> <p>The Department has agreed to the release of £850 million of reserves that Royal Mail built up through past profitable performance can be transferred to a special account, the pension escrow account, which the pension fund trustees can draw on in the event that Royal Mail should fail as a business.</p> <p>The Department has also made available to Post Office Limited, through an agreement reached on 17 October 2003, a revolving loan facility of up to £1.15 billion. This is to help the company fund its working capital requirements in light of the migration of state benefits payments to a system of direct payment, alongside a Government commitment that benefit recipients will still be able to collect their benefit, in cash and in full, from post office branches. Post Office Limited began utilising this facility on 1 December 2003. The agreement allows for the company to have up to 30 concurrent loans out at any one time with loan periods which can be one day or longer. The availability of the facility ends on 30 March 2010 and any outstanding loans must be repaid by 31 March 2010. The proposal for a Working Capital package was given EU State Aid clearance in May 2003.</p>
<p><i>Legal</i></p>	<p>Action is being brought against the Department by PPL Ltd, which is the trade association which represents the recording and music industry. PPL are claiming that the Department failed to implement a European Directive which was intended to be beneficial to the industry, in the manner intended, with the result that its members have been financially disadvantaged. PPL are seeking £100 million in Francovich damages from the Department. The Department intends to defend this action and expert counsel has been appointed.</p>
<p><i>Icelandic Trawlermen compensation scheme</i></p>	<p>Following a report in February 2007 by the Ombudsman on the Trawlermen's compensation scheme set up in 2000, the Department has agreed to review the scheme rules and eligibility criteria for consistency with the policy intention behind the scheme; and, if it is concluded that they were inconsistent, to re-assess all claims against new criteria. This review is still underway and it is therefore not yet possible to assess whether there will be any financial consequences arising from it.</p>
<p><i>British Shipbuilders</i></p>	<p>There are contingent liabilities that arise from the Department's assurances and guarantees to British Shipbuilders as follows:</p> <p>Following a Court of Appeal ruling in January 2006, compensation payments for pleural plaques claims (valued at £22.5 million) established under previous case law have now been abolished (i.e. the ruling was that those suffering with pleural plaques are not suffering from any compensable injury). British Shipbuilders is presently applying the law as it now stands in respect of solely pleural plaques injury claims cases it receives. However, it remains a contingent liability pending the outcome of an appeal to the House of Lords against the Court of Appeal ruling.</p> <p>Following the Compensation Act 2006, which reversed the effects of a previous judgement and so enables mesothelioma claimants to recover full compensation from any liable person there are likely to be unquantifiable increases to the existing provision in relation to British Shipbuilders. British Shipbuilders plan to undertake an actuarial review at the end of 2007 which will estimate the liability.</p>

35. Contingent liabilities not required to be disclosed under FRS 12 but included for parliamentary reporting and accountability purposes

35.1 Quantifiable

The Department has entered into the following quantifiable contingent liabilities by offering guarantees or indemnities. None of these is a contingent liability within the meaning of FRS 12 since the likelihood of a transfer of economic benefit in settlement is too remote.

	1 April 2006	Increase in year	Liabilities crystallised in year	Obligations expired in year	31 March 2007
	£'000	£'000	£'000	£'000	£'000
Statutory Guarantees					
– Home Shipbuilding Credit Guarantee Scheme	56,000	–	–	(19,000) ¹	37,000
Statutory Indemnities					
– Local Network Indemnities	56,976	–	–	(590)	56,386
Other					
– Callable capital subscription for the Common Fund for Commodities	1,960	–	–	–	1,960
– Paid in capital subscription for the Common Fund for Commodities	2,240	–	–	–	2,240
Total	117,176	–	–	(19,590)	97,586

Note: 1 – Obligation expired in year relates to cases closed and/or completed contracts.

35.2 Unquantifiable

The Department has entered into the following unquantifiable contingent liabilities by offering guarantees, indemnities or by giving letters of comfort. None of these is a contingent liability within the meaning of FRS 12 since the possibility of a transfer of economic benefit in settlement is too remote.

Statutory guarantees

- Guarantees given to meet any deficits in the funds of British Coal Corporation Pensions;
- A guarantee has been given to the Financial Reporting Council that if the amount held in the Legal Costs Fund falls below £1 million in any year, an additional grant will be made to cover legal costs subsequently incurred in that year;
- Any liabilities imposed by section 68, Telecommunications Act 1984;
- Any liabilities imposed by section 9, British Aerospace Act 1980.

Statutory indemnities

- Indemnities given to UKAEA by the Secretary of State to cover certain indemnities given by UKAEA to carriers and British Nuclear Fuels plc against certain claims for damage caused by nuclear matter in the course of carriage;
- Indemnity in respect of National Grid Company's liabilities re the interconnector linking England and France;

- Indemnities equivalent to those given to civil servants under the Civil Service Management Code have been given to persons appointed to the Board of the Office of Fair Trading, including the Chairman;
- Indemnities equivalent to those given to Board members of Non-Departmental Public Bodies (NDPBs) have been given to members of the nine Regional Committees of Postwatch (the Consumer Council for Postal Services);
- Indemnities given to Bankers of the Insolvency Services against certain liabilities arising in respect of non-transferable "account payee" cheques due to insolvent estates and paid into the Insolvency Service's account.⁽ⁱ⁾
- The Police Information Technology Organisation (Home Office) provides the Department with access to data from the Police National Computer (PNC). The Department has indemnified the police against any liabilities which they might incur as a result of providing that access.

Letters of comfort

- Letter of comfort to AEA Technology re joint European project for underground gasification of coal.

Other

- Statutory liability for third party claims in excess of the operator's liability in the event of a nuclear accident in the UK;
- Further incidents/accidents insurance claims for exposure to ionising radiation pursued outside the existing UKAEA insurance scheme;
- Liabilities relating to the issue of licences to operators of satellites and other space objects;
- European Patent Office (EPO): the UK as one of the contracting states has a potential liability under Article 40 of the European Patent Convention of 1973;
- World Intellectual Property Organisation: the UK, as a contracting state to the Patent Co-operation Treaty of 1970, has a potential liability under Article 57 of the Treaty;
- Outstanding claims under the Enemy Property Claim scheme are still being considered;
- There is a possibility that other liabilities exist in relation to nationalised, and former nationalised, industries that, if they crystallised, may fall to the Department.

These liabilities are unquantifiable due to the nature of the liability and the uncertainties surrounding them.

Note: (i) – Only this contingent liability relates to an agency. All other liabilities relate to the core Department.

36. Losses and special payments

The disclosures in this note are in accordance with the *Government Accounting Manual*. The purpose of this note is to report on losses and special payments of particular interest to Parliament.

36.1 Losses statement

	2006-07 £'000	2005-06 £'000
Total	3,670	5,589
	(27 cases)	(129 cases)

Details of a case over £250,000

Included in the above is one case of loss relating to the Insolvency Service, an executive agency of the Department. The Insolvency Service, agreed to undertake, on a without prejudice basis, a joint project review of the Cameo IT system. The Cameo IT system was intended to replace two current IT systems running the estate accounting functions for the Official Receiver and insolvency practitioner cases. The review was completed in November 2005. An agreement was reached with the PFI provider to re-commence the project with a new sub-contractor. The first stage of this work was a 12 week review of the development to date and an update of The Service's business requirements. This was completed between June and October 2006.

Further negotiations were then undertaken but these led to a decision not to proceed and the contract with the PFI provider was brought to an end by mutual agreement. A total of £3,359,000 of an asset under construction was written off as a result of the impairment review. This write-off meets the Government Accounting definition of a constructive loss. The Insolvency Services Annual Report and Accounts 2006-07 include further details.

36.2 Special payments

Special payments include extra-contractual, ex-gratia and compensation payments.

	2006-07 £'000	2005-06 £'000
Total	643	119
	(43 cases)	(17 cases)

No individual payments exceeded £250,000.

37. Related-party transactions

The Department is the parent of the Advisory, Conciliation and Arbitration Service (ACAS), the Insolvency Service (INSS), the National Weights and Measures Laboratory (NWML), and the Small Business Service (SBS) and sponsor of the Non-Departmental Public Bodies (shown in section 3.3 to this Report), Companies House and the Patent Office (Trading Funds) and Royal Mail Holdings plc, British Shipbuilders, BNFL plc and OFCOM. In addition British Energy is considered to be a quasi-subsidary of the Department. These bodies are regarded as related parties with which the Department has had various material transactions during the year.

In addition the Department acts as guarantor for the Mineworkers' Pension Scheme (MPS) and the British Coal Staff Superannuation Scheme (BCSSS). These schemes have been disclosed as fixed asset investments in the accounts with corresponding debtors, arising from surpluses in the respective funds, being shown as current asset investments. The Government, through the Secretary of State, appoints five of the MPS's Committee of Management. Of these five, two are also members of the BCSSS Committee of Management. There were no transactions between the Department and Coal Pension Trustee Services Ltd, a jointly owned venture of the MPS and the BCSSS.

In addition the Department has had various material transactions with other Government Departments and Government bodies. The most significant of these transactions have been with the Department for Communities and Local Government; the Department for Education and Skills, and the Department for the Environment Food and Rural Affairs.

Mary McAnally, an independent member of the Management Board until June 2006, was also an independent board member of the South East of England Development Agency (SEEDA). SEEDA is a NDPB sponsored by the Department, which received grant in aid payments totalling £62m during 2006-07.

None of the Department's ministers, other Board members, key managerial staff or other related parties has undertaken any material transaction with the Department during the year.

38. Post Balance Sheet events

38.1 Post Office network support

On 14 December 2006 the Department launched a 12-week national consultation on proposals for the future of the Post Office network. The consultation closed on 8 March 2007 having attracted some 2,500 responses. DTI published its response on 17 May 2007, announcing investment of up to £1.7 billion, subject to EC State Aid clearance, the compensated closure of a maximum of 2,500 branches, partly offset by 500 new Outreach sites and the introduction of minimum access criteria. The Government's package is aimed at maintaining a national network and placing it on a sustainable footing for the longer term.

38.2 Sale of British Energy interests

On 1 June 2007 the Nuclear Liabilities Fund (NLF), a Central Government body, in which the Department has an interest, but which is not consolidated in the Accounts (as it is outside of the accounting boundary), converted and sold 450 million shares in British Energy Group plc (BE) at £5.20 per share realising £2.3bn, reducing the Nuclear Liability Fund's interest in British Energy from 64% to 36%. We estimate that the contingent asset disclosed on page 254 to the accounts has increased to £2.6 billion. The increase in the contingent asset is principally driven by the value of BE shares which increased between the year end and the date of sale.

38.3 Technology Strategy Board

The March 2006 Budget stated that the advisory Technology Strategy Board (TSB) would be given a wider remit to stimulate business innovation in those areas that offered the greatest scope for boosting growth and productivity, and that it should be set up at arm's length to the Government. In November 2006, the Secretary of State announced that the new TSB would be an executive NDPB, based in Swindon.

Following debates in both Houses of Parliament, an Order in Council establishing the TSB under the Science and Technology Act was approved by the Privy Council in February 2007 and the Royal Charter incorporating the body was printed and sealed on 27 March 2007. The new body was formed on 2 July 2007.

38.4 Science and Technology Facilities Council

The Science and Technology Facilities Council (STFC), a new research council resulting from the merger of the Particle Physics and Astronomy Research Councils (PPARC) and the Council for the Central Laboratory of the Research Council (CCLRC), was formed by Royal Charter, with NDPB status, on 1 April 2007.

38.5 Small Business Service

The Secretary of State announced in Parliament in October 2006 that the Small Business Service (SBS) would become a smaller, sharply focused policy unit with close links with business and with other parts of Government. The SBS would no longer deliver services. Wherever possible, support programmes would be run by its delivery partners close to customers, regionally or locally. SBS would no longer need the status of being an executive agency. In April 2007 it started operating as a policy unit within the Department's Enterprise and Business Group.

38.6 Machinery of Government Change (MoG)

Following an announcement by the Prime Minister on 28 June 2007 about the way Government is organised, the Department ceased to operate as the DTI. The Department for Business, Enterprise and Regulatory Reform (BERR) was created. The successor Department will assume much of the work of the DTI. At the same time the Department for Innovation, Universities and Skills (DIUS) was established, which will take forward the science and innovation aspects of the DTI's work. These changes also resulted in changes to ministerial responsibilities.

38.7 Date Accounts Authorised for Issue

The Accounting Officer of the Department has authorised these accounts to be issued on 23 July 2007.

39. Third-party assets

The following are balances on accounts held in the Department's name at commercial banks but which are not the Department's monies. They are held or controlled for the benefit of third parties and are not included in the Department's Resource Accounts.

	31 March 2007 £'000	31 March 2006 £'000
Bank balances	7,396	9,380

40. Restatement of Balance Sheet and Operating Cost Statement as a result of Machinery of Government (MoG) changes

The Department had four MoG changes affecting its Estimates and accounts where functions or responsibilities were transferred to Other Government Departments (OGD).

On 1 April 2006 the Employment Tribunal Service (ETS) transferred to the Ministry of Justice, the Engineering Inspectorate Directorate transferred to the Health and Safety Executive, the Equal Opportunities Commission and Women and Equality Unit transferred to the Department for Communities and Local Government and the Social Enterprise Unit transferred to the Cabinet Office.

MoG changes which involve the merger or the transfer of functions or responsibility of one part of the public service sector to another, are accounted for using merger accounting in accordance with Financial Reporting Standard (FRS) 6. This requires the restatement of the opening Balance Sheet and prior year's Operating Cost Statement, Cash Flow Statement, Statement of Operating Costs by Departmental Aim and Objectives and associated Notes to the Accounts. The Balance Sheet and the Operating Cost Statement were restated as follows:

Balance Sheet

	Published balance 31 March 2006	Transfers	Restated balance 31 March 2006
	£'000	£'000	£'000
Fixed assets:			
Tangible assets	195,824	(12,907)	182,917
Intangible assets	1,293	–	1,293
Investments	4,536,733	–	4,536,733
Current assets:			
Stocks	2,672	–	2,672
Debtors	632,008	(2,676)	629,332
Investments	5,297,451	–	5,297,451
Cash	553,750	–	553,750
Creditors (amounts falling due within one year)	(5,052,970)	4,338	(5,048,632)
Creditors (amounts falling due after more than one year)	(1,095,402)	538	(1,094,864)
Provisions	(5,264,636)	827	(5,263,809)
	(193,277)	(9,880)	(203,157)
Taxpayers' equity:			
General fund	(3,375,456)	(8,217)	(3,383,673)
Revaluation reserve	3,182,179	(1,663)	3,180,516
	(193,277)	(9,880)	(203,157)

Operating Cost Statement

	Published 2005-06 £'000	Movements arising on transfers £'000	Restated 2005-06 £'000
Administration costs:			
Staff costs	193,539	(19,651)	173,888
Other administration costs	159,168	(11,902)	147,266
Income	(6,301)	34	(6,267)
Programme costs:			
Request for Resources 1			
Staff costs	106,410	(17,276)	89,134
Programme costs	5,623,720	(38,400)	5,585,320
Income	(3,384,283)	91	(3,384,192)
Request for Resources 2			
Staff costs	—	—	—
Programme costs	3,044,306	—	3,044,306
Income	(5,475)	—	(5,475)
Net Operating Cost	5,731,084	(87,104)	5,643,980

41. Additional entities

Information about the principal activities undertaken by the Agencies and ACAS, together with a list of those bodies within the Departmental boundary can be found in section 3.3 of the Report.

Other bodies covered by these accounts by way of including in the reported results, funds paid to them as grant or expenses are also listed in section 3.3 of the Report.

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CHAPTER 6

Budgetary spend of the Departmental family

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Section 6.3	Expenditure tables
Section 6.4	Glossary of financial terms

Section 6.1

Introduction

6.1 In the previous chapters (4 and 5), the financial performance of the Department is shown from the perspective of the Consolidated Resource Accounts. This chapter describes the budgetary spend of the whole Departmental family. It contains detailed financial information covering the period from 2001-02 to 2007-08, the end of the Spending Review 2004 period. Following announcements by the Prime Minister on 28 June 2007 (see section 1.1), the 2007-08 budgets will be allocated to the DTI's successor Departments: the Department for Business, Enterprise and Regulatory Reform, and the Department for Innovation, Universities and Skills.

6.2 Section 6.2 provides a detailed variance analysis between 2005-06 outturns, 2006-07 outturns and 2006-07 budgets. Section 6.3 contains the core Departmental expenditure tables showing how the Departmental family spends its budgets. The format of the tables has been agreed with HM Treasury.

6.3 Departmental expenditure is analysed in resource terms, showing consumption of resources and capital investment. Budgets comprise *Departmental Expenditure Limits (DEL)** and *Annually Managed Expenditure (AME)*, and include the expenditure of the main Department, its *Executive Agencies* and the *Non-Departmental Public Bodies (NDPBs)* sponsored by the Department. The information here includes both *Voted* and *non Voted* expenditure as described in chapter 4. The Department is required to manage DEL spend within control totals agreed with HM Treasury. These are total Capital DEL, total Resource DEL (both *near cash* and *non cash* expenditure), near cash within Resource DEL, and administration costs. Parliamentary control over Departmental expenditure is exercised through the voted approval of Departmental *Supply Estimates*, comprising Main and Supplementary Estimates, presented during the course of each financial year. Supply Estimates formally approve the resource and capital expenditure by the consolidated Department and its Executive Agencies, and the granting of cash to NDPBs. This process is explained in greater detail in chapter 4.

6.5 The Consolidated Resource Accounts in chapter 5 provide outturns against the totals in Supply Estimates. The relationship between these outturns and the outturns shown in the following tables is explained in section 4.3 (Financial Review), see the reconciliation between Net Resource Outturn (Estimates) and Net Resource Outturn (Budget) on page 176.

6.6 Section 6.4 provides a Glossary of the financial terms used in this chapter.

* Italicised terms are explained in the Glossary of Terms at section [6.4]

Section 6.2

Budgetary spend from year to year

6.7 This section provides information about the significant movements in the Department's DEL and AME budgets from 2005-06 to 2006-07. It explains, for Resource and Capital budgets, the reasons for the differences in outturns between 2005-06 and 2006-07, referring where necessary to additional funding for new services or programmes. It also explains the reasons for variances between outturns and budgets for 2006-07.

Departmental Expenditure Limit (DEL)

Comparison of 2005-06 and 2006-07 budgeting outturns

Resource DEL outturn 2005-06	£5,086m
Additional funding from HM Treasury:	
Post Office Network	£75m
SCAPE Pensions	£59m
Face to Face Debt Advice project	£15m
Additional funding from budget transfers from other government departments and utilisation of Departmental End Year Flexibility:	
Nuclear Decommissioning Authority	£306m
Science budget	£108m
Restructuring provisions	£25m
Other (below £5m)	£29m
Reduced expenditure on various programmes:	
Admin Expenditure	(£14m)
Provisions and related expenditure under the Enterprise Fund and Small Firms Loan Guarantee Scheme	(£66m)
Legacy Business Support and Innovation	(£118m)
Resource DEL outturn 2006-07	£5,505m
Capital DEL outturn 2005-06	£1,194m
Increased expenditure on various programmes:	
Nuclear Decommissioning Authority	£48m
Innovation programmes*	£40m
Other	£2m
Reduced expenditure on various programmes:	
Science Budget	(£97m)
Regional Selective Assistance/SFIE	(£21m)
Capital DEL outturn 2006-07	£1,166m

* In 2005-06 the receipt of a £40 million special dividend from the Patent Office was offset against expenditure. This did not recur in 2006-07.

Comparison of 2006-07 outturns to 2006-07 budgets

Resource DEL outturn 2006-07	£5,505m
Underspend vs. Budget:	
Nuclear Decommissioning Authority	£72m
Science Budget	£23m
Administration	£36m
Enterprise Fund and Small Firms Loan Guarantee Scheme	£48m
Other (below £5m)	£34m
Resource DEL budget 2006-07	£5,718m
Capital DEL outturn 2006-07	£1,166m
Underspend vs. Budget:	
Launch Investments, as a result of additional Income	£11m
Enterprise Capital Fund	£35m
Sustainable Energy Capital Grants	£22m
Regional Selective Assistance/SFIE	£10m
Technology Strategy Capital Grants	£10m
Other (below £5m)	£38m
Capital DEL budget 2006-07	£1,292m

Annually Managed Expenditure (AME)

Comparison of 2005-06 and 2006-07 budgeting outturns

Resource AME outturn 2005-06	£367m
Additional expenditure:	
Increased non-cash costs of nuclear and coal health provisions	£220m
Reduced expenditure:	
Paternity Pay	(£44m)
Redundancy Payments Service	(£48m)
UKAEA Superannuation Scheme	(£28m)
Interest on BNFL debenture	(£22m)
Other	(£4m)
Resource AME outturn 2006-07	£441m
Capital AME outturn 2005-06	(£560m)
Additional expenditure:	
Additional Funding for Post Office equity	£430m
Post Office working capital loan	£120m
Reduced expenditure:	
Additional receipt from British Coal Pension surplus	(£129m)
Repayment of BNFL debenture	(£550m)
Capital AME outturn 2006-07	(£689m)

Comparison of 2006-07 outturns to 2006-07 budgets

Resource AME outturn 2006-07	£441m
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Underspend/(overspend) vs. Budget:	
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Paternity Pay	£43m
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Redundancy Payments Service	£39m
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Interest on BNFL debenture	£22m
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Other	£7m
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UKAEA Superannuation Scheme	(£51m)
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Resource AME budget 2006-07*	£501m
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* the Resource AME budget shown here excludes, for comparative purposes, the AME budgets for the Nuclear Decommissioning Authority, where outturns are not available at the time of publication.

Capital AME outturn 2006-07	(£689m)
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Additional funds in respect of:	
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BNFL debenture	£550m
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British Coal Pension Surplus	£282m
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Royal Mail working capital facility	£600m
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Other	£10m
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Capital AME budget 2006-07	£753m
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Section 6.3

Expenditure tables

Table 1 – Total Public Spending

6.8 Table 1 summarises expenditure on functions administered by the Department, covering the period from 2001-02 to 2007-08. Current and future year figures reflect budgeted figures agreed with HM Treasury. Consumption of Resources includes programme and administration costs. Total Departmental expenditure is analysed by high-level Departmental functions corresponding to separate Requests for Resources in Departmental Supply Estimates, and any unallocated provision.

6.9 The figures shown as 2007-08 plans reflect the original DTI budgets. These will be allocated to its successor departments created in June 2007 (BERR and DIUS, see section 1.1) in due course.

Table 1 Department of Trade and Industry Total Public Spending

	2001-02 Outturn	2002-03 Outturn	2003-04 Outturn	2004-05 Outturn	2005-06 Outturn (1)	2006-07 Outturn	2007-08 Plan ^a
Resource budget							
Resource DEL							
Increasing UK Competitiveness (2)	3,065,581	1,622,707	1,643,177	2,059,027	2,673,842	2,984,798	3,209,703
Increasing Scientific Excellence (3)	1,579,960	1,649,197	1,739,518	2,022,135	2,412,260	2,520,532	2,777,796
Unallocated Provision	—	—	—	—	—	—	4,306
UKAEA pension schemes (4)	—	—	—	—	—	—	—
Total Resource Budget DEL	4,645,541	3,271,904	3,382,695	4,081,162	5,086,102	5,505,330	5,991,805
<i>of which: near cash</i>	3,193,414	3,158,739	3,372,873	3,748,614	4,719,963	5,172,465	5,749,438
Resource AME							
Increasing UK Competitiveness	1,023,159	3,458,940	1,258,012	-567,645	85,685	185,245	-365,778
Increasing Scientific Excellence	51	50	—	11,192	15,100	17,202	18,097
UKAEA pension schemes (4)	200,862	211,631	237,090	246,036	267,013	238,533	288,883
Total Resource Budget AME	1,224,072	3,670,621	1,495,102	-310,417	367,798	440,980	-58,798
<i>of which: near cash</i>	327,668	1,283,435	1,324,388	1,235,065	1,502,635	1,035,204	827,936
Total Resource Budget	5,869,613	6,942,525	4,877,797	3,770,745	5,453,900	5,946,310	5,933,007
<i>of which: depreciation</i>	160,381	129,194	171,899	150,455	163,884	146,384	140,689
Capital Budget							
Capital DEL							
Increasing UK Competitiveness	289,807	277,268	437,386	204,702	364,862	433,165	440,318
Increasing Scientific Excellence	303,573	415,392	565,789	575,190	829,812	732,805	688,248
Unallocated Provision	—	—	—	—	—	—	24,590
Total Capital Budget DEL	593,380	692,660	1,003,175	779,892	1,194,674	1,165,970	1,153,156

Table 1 Department of Trade and Industry Total Public Spending (continued)

	2001-02 Outturn	2002-03 Outturn	2003-04 Outturn	2004-05 Outturn	2005-06 Outturn (1)	2006-07 Outturn	£'000 2007-08 Plan
Capital AME							
Increasing UK Competitiveness	—	-412,002	-341,000	192,000	-560,280	-688,880	-276,000
Increasing Scientific Excellence	—	—	—	—	—	—	—
Total Capital Budget AME	—	-412,002	-341,000	192,000	-560,280	-688,880	-276,000
Total Capital Budget	593,380	280,658	662,175	971,892	634,394	477,090	877,156
Total Departmental Spending							
Increasing UK Competitiveness	4,290,205	4,888,615	2,899,350	1,807,237	2,485,195	2,857,213	2,922,669
Increasing Scientific Excellence	1,811,545	1,993,743	2,231,633	2,538,909	3,172,202	3,181,270	3,429,026
Unallocated Provision	—	—	—	—	—	—	28,896
UKAEA pension schemes	200,862	211,631	237,090	246,036	267,013	238,533	288,883
Total Departmental Spending[†]	6,302,612	7,093,989	5,368,073	4,592,182	5,924,410	6,277,016	6,669,474
<i>of which:</i>							
Total DEL	5,118,540	3,876,170	4,248,971	4,745,599	6,151,892	6,489,916	7,039,272
Total AME	1,184,072	3,217,819	1,119,102	-153,417	-227,482	-212,900	-369,798

† Total Departmental spending calculated as the total of the resource budget plus the capital budget, less depreciation

Spending by local authorities on functions relevant to the department (5)

Current spending	233,181	247,668	278,277	288,359	316,096	346,703	
<i>of which:</i>							
financed by grants from budgets above	346,151	386,809	346,492	384,026	387,395	408,659	394,550
Capital spending	547	825	1,128	-496	3,553	4,139	
<i>of which:</i>							
financed by grants from budgets above	357,819	408,668	506,979	550,643	546,756	510,362	537,207

Notes

(1) Note on 2005-06 Outturns

The DTI Departmental Report 2006 (DR06) included Estimated Outturns for 2005-06. The final outturns for 2005-06 shown here are those published in the Public Expenditure White Paper (PEOWP) 2006 (2007 White Paper not yet published at time of going to print). The totals are compared below.

	2005-06 Estimated Outturns from DR06	2005-06 Final Outturns
Total Resource	6,188.5	5,453.9
Total Capital	1,337.8	634.4
Total Public Spending	7,526.3	6,088.3

An analysis of the principal reasons for the differences is included in the separate Table 2 Resource Budget, and Table 3 Capital Budget

Other Notes

(2) This comprises the Departmental Strategic Objectives; Supporting Successful Business; Ensuring Fair Markets; Secure, Sustainable, Affordable Energy; and Innovation expenditure under the Promoting World-Class Science and Innovation Objective.

(3) This comprises Science expenditure under the Promoting World-Class Science and Innovation Objective.

(4) UKAEA Pensions Schemes are covered by a separate Supply Estimate and Request for Resources.

(5) This relates to expenditure by the London Development Agency and by the Regional Development Agencies on other Local Authorities.

Table 2 – Total Resource Budget

6.10 Table 2 provides a more detailed analysis of the resource budget information summarised in Table 1. It shows expenditure by each of the business plan objectives, which define the purposes for which Departmental resources are used. More detail on the spend per business plan objective (both resource and capital) is provided in the tables at the end of each of sections 2.4 to 2.8.

6.11 The table includes an explanation of any significant variances between the estimated outturns for 2005-06 presented in the Departmental Report for 2006, and the final outturns for 2005-06 presented in these tables. There are also other notes to provide further information as appropriate. 2006-07 outturns are those used for the 2006-07 Public Expenditure Outturn White Paper.

Table 2 Resource budget for the Department of Trade and Industry



Table 2 Resource budget for the Department of Trade and Industry

	2001-02 Outturn	2002-03 Outturn	2003-04 Outturn	2004-05 Outturn	2005-06 Outturn (1)	2006-07 Outturn	£ 000 2007-08 Plan
Resource DEL							
Increasing UK Competitiveness	3,065,581	1,622,707	1,643,177	2,059,027	2,673,842	2,984,798	3,209,703
<i>of which:</i>							
Knowledge Transfer and Innovation (2)	147,175	173,266	58,583	242,567	263,661	264,235	326,358
Extending Competitive Markets	30,721	70,898	75,282	116,881	94,407	80,039	99,280
Security of Energy Supply	10,343	-1,157	8,498	7,176	6,313	5,337	6,547
Sustainability and the Environment	20,212	23,147	27,244	33,058	29,734	21,419	20,135
Enterprise Growth and Business Investment (3)	451,762	483,679	408,304	288,036	203,377	99,311	133,285
Regional Economies (4)	164,201	188,632	147,525	202,645	419,371	482,459	451,609
Trade and Investment (5)	31,058	32,071	35,180	34,364	33,234	30,889	33,516
Maximising Potential in the Workplace (6)	53,467	71,235	67,492	66,453	73,118	63,581	57,629
Corporate Activity and Insolvency Framework (7)	23,105	23,713	12,716	9,704	25,540	39,240	53,495
Assets and Liabilities (6)	1,809,085	273,175	446,918	728,593	1,213,661	1,568,284	1,710,029
Nuclear Security and Export Control	30,958	29,410	60,579	54,572	60,136	50,294	50,601
Activities in Support of all Objectives (9)	293,494	254,638	294,856	274,978	251,290	279,710	267,219
Increasing Scientific Excellence	1,579,960	1,649,197	1,739,518	2,022,135	2,412,260	2,520,532	2,777,796
<i>of which:</i>							
Expenditure of Research Councils	1,491,581	1,543,017	1,640,986	1,854,492	2,253,777	2,334,434	2,572,392
Departmental Science programmes	88,379	106,180	98,532	167,643	158,483	186,098	205,404
Unallocated Provision	-	-	-	-	-	-	4,306
<i>of which:</i>							
Increasing Scientific Excellence in the UK	-	-	-	-	-	-	4,306
UKAEA pension schemes	-	-	-	-	-	-	-
<i>of which:</i>							
UKAEA pension schemes	-	-	-	-	-	-	-
Total Resource Budget DEL	4,645,541	3,271,904	3,382,695	4,081,162	5,086,102	5,505,330	5,991,805

Table 2 Resource budget for the Department of Trade and Industry (continued)

	2001-02 Outturn	2002-03 Outturn	2003-04 Outturn	2004-05 Outturn	2005-06 Outturn (1)	2006-07 Outturn	£ '000 2007-08 Plan
Resource AME							
Increasing UK Competitiveness	1,023,159	3,458,940	1,258,012	-567,645	85,685	185,245	-365,778
Extending Competitive Markets	—	—	-100	—	—	—	—
Enterprise Growth and Business Investment	—	-6,286	-1,940	-479	—	—	—
Regional Economies	35,000	36,212	35,223	38,979	37,147	38,454	37,263
Maximising Potential in the Workplace	—	—	20,000	37,800	50,000	6,692	35,000
Corporate Activity and Insolvency Framework	213,548	289,183	248,600	186,436	252,733	204,643	258,809
Assets and Liabilities	772,934	3,132,814	956,229	-830,381	-263,261	-64,544	-696,850
Activities in Support of all Objectives	1,677	7,017	—	—	9,066	—	—
Increasing Scientific Excellence	51	50	—	11,192	15,100	17,202	18,097
<i>of which:</i>							
Expenditure of Research Councils	51	50	—	11,192	15,100	17,202	18,097
UKAEA pension schemes	200,862	211,631	237,090	246,036	267,013	238,533	288,883
<i>of which:</i>							
UKAEA pension schemes	200,862	211,631	237,090	246,036	267,013	238,533	288,883
Total Resource Budget AME	1,224,072	3,670,621	1,495,102	-310,417	367,798	440,980	-58,798
<i>of which:</i>							
Near cash	327,668	1,283,435	1,324,388	1,235,605	1,502,635	1,141,117	827,936
Total Resource Budget	5,869,613	6,942,525	4,877,797	3,770,745	5,453,900	5,946,310	5,933,007

Notes**(1) Note on 2005-06 Outturns**

The DTI Departmental Report 2006 (DR06) included Estimated Outturns for 2005-06. The final outturns for 2005-06 shown here are those published in the Public Expenditure White Paper (PEOWP) 2006. The totals are compared below.

	2005-06 Estimated Outturns from DR06	2005-06 Final Outturns
Total Resource	6,188.5	5,453.9

The main reasons for the variance are:

a) The estimates in DR06 included increases in nuclear decommissioning provisions by BNFL and UKAEA. As a result of the Energy Act 2004 and subsequent EU state aids clearance (timing of which was uncertain when the estimated outturn was prepared) these provisions were either extinguished or transferred to NDA, so no outturns were recorded. The 2006 Resource Accounts reported an underspend of £590m on these provisions

b) The estimates in DR 06 included estimated outturns of £74m in respect of the Employment Tribunals Service, which transferred to the Ministry of Justice at 1 April 2006.

Other Notes

(2) Includes expenditure by the National Weights and Measures Laboratory

(3) Includes expenditure by the Small Business Service

(4) Includes expenditure by Regional Development Agencies

(5) This refers to the administration costs of UK Trade and Investment (UKTI). Programme expenditure by UKTI is shown on a separate Estimate

(6) Includes expenditure by the Advisory Conciliation and Arbitration Service (ACAS)

(7) Includes expenditure by the Insolvency Service Executive Agency

(8) From 2005-06 includes expenditure by the Nuclear Decommissioning Authority

(9) Includes Departmental administration costs

Table 3 – Total Capital Budget

6.12 Table 3 provides a more detailed analysis of the Capital budget information summarised in Table 1. It shows expenditure by each of the business plan objectives, which define the purposes for which Departmental Resources are used. More detail on the spend per business plan objective (both resource and capital) is provided in the tables at the end of each of sections 2.4 to 2.8.

6.13 The table includes an explanation of any significant variances between the estimated outturns for 2005-06 presented in the Departmental Report for 2006, and the final outturns for 2005-06 presented in these tables. There are also other notes to provide further information as appropriate. 2006-07 outturns are those used for the 2006-07 Public Expenditure Outturn White Paper.

Table 3 Capital budget for the Department of Trade and Industry

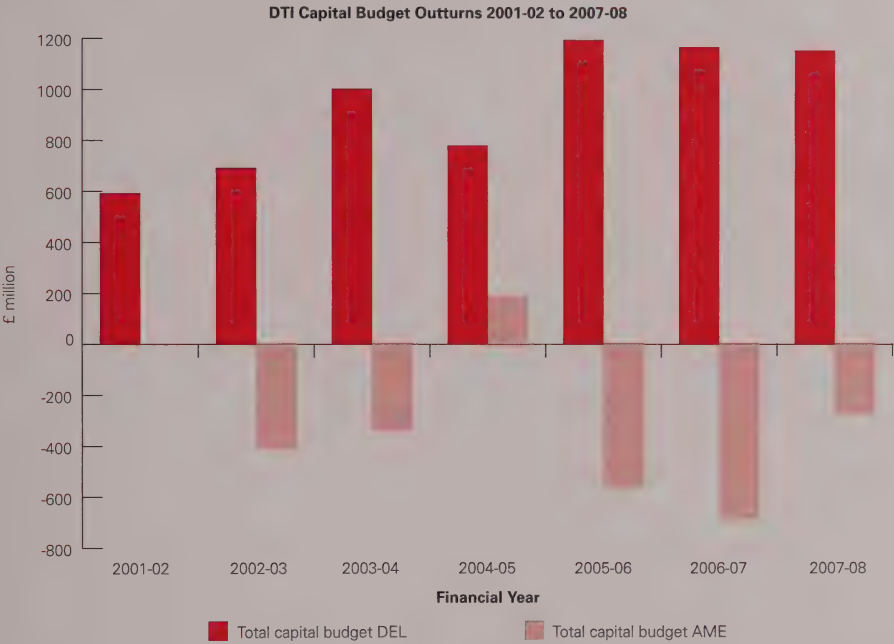


Table 3 Capital budget for the Department of Trade and Industry

	2001-02 Outturn	2002-03 Outturn	2003-04 Outturn	2004-05 Outturn	2005-06 Outturn (1)	2006-07 Outturn	2007-08 Plan
Capital DEL							
Increasing UK Competitiveness	289,807	277,268	437,386	204,702	364,862	433,165	440,318
<i>of which:</i>							
Knowledge Transfer and Innovation (2)	18,787	12,780	-4,496	-14,026	-37,929	27,862	15,175
Extending Competitive Markets (3)	14,719	20,575	94,036	-11,508	-16,588	-4,469	810
Security of Energy Supply	4,160	983	644	29,307	18,038	4,116	-
Sustainability and the Environment	76,330	4,202	5,029	24,455	38,763	51,694	69,800
Enterprise Growth and Business Investment	16,487	142,329	343,125	39,487	-115,867	-139,155	-90,300
Regional Economies (4)	143,864	86,692	-2,708	105,631	188,821	146,426	129,000
Trade and Investment	350	-	-69	-161	-6	-4	-
Maximising Potential in the Workplace	-	2,758	2,564	1,918	1,608	1,013	1,035
Corporate Activity and Insolvency Framework	-385	-385	-1,590	292	1,116	-160	-285
Assets and Liabilities (5)	3,599	2,958	-12,877	10,844	274,322	332,038	304,993
Nuclear Security and Export Control	-	-	-	-	1,073	-	3,790
Activities in Support of all Objectives	11,896	4,376	13,728	18,463	11,511	13,804	6,300
Increasing Scientific Excellence	303,573	415,392	565,789	575,190	829,812	732,805	688,248
<i>of which:</i>							
Expenditure of Research Councils	195,765	224,990	259,830	344,331	448,411	426,541	388,248
Departmental Science programmes	107,808	190,402	305,959	230,859	381,401	306,264	300,000
Unallocated Provision	-	-	-	-	-	-	24,590
<i>of which:</i>							
Increasing UK Competitiveness	-	-	-	-	-	-	18,269
Increasing Scientific Excellence in the UK	-	-	-	-	-	-	6,321
Total capital budget DEL	593,380	692,660	1,003,175	779,892	1,194,674	1,165,970	1,153,156
Capital AME							
Increasing UK Competitiveness	-	-412,002	-341,000	192,000	-560,280	-688,880	-276,000
<i>of which:</i>							
Assets and Liabilities (6)	-	-412,002	-341,000	192,000	-560,280	-688,880	-276,000
Increasing Scientific Excellence	-	-	-	-	-	-	-
Total capital budget AME	-	-412,002	-341,000	192,000	-560,280	-688,880	-276,000
Total capital budget	593,380	280,658	662,175	971,892	634,394	477,090	877,156
<i>of which:</i>							
capital expenditure on							
tangible fixed assets	226,610	249,186	368,564	387,937	622,138	491,445	670,460
Less depreciation	160,381	129,194	171,899	150,455	163,884	146,384	140,689
Net capital expenditure on							
tangible fixed assets	66,229	119,992	196,665	237,482	458,254	345,061	529,771

Table 3 Capital budget for the Department of Trade and Industry (continued)

Notes		
(1) Note on 2005-06 Outturns		
	2005-06 Estimated Outturns from DR06	2005-06 Final Outturns
Total Capital	1,337.8	634.4
The main reasons for the variance are:		
a) The estimated outturn reported in DR06 allowed for the maximum amount outstanding on the working capital loan to the Post Office. The balance outstanding fluctuates in response to the Post Office's need for cash and cannot be easily predicted. In the event the amount outstanding at 31 March 2006 was £360m less than estimated.		
b) An additional £200m was received in respect of Coal Pension Scheme surpluses.		
Other Notes		
(2) From 2006-07 includes capital grants under Technology Strategy programmes		
(3) Figures from 2003-04 to 2005-06 include the issue and repayment of loans to OFCOM.		
(4) Includes expenditure by the Regional Development Agencies		
(5) From 2005-06 includes capital expenditure by the Nuclear Decommissioning Authority		
(6) From 2004-05 this includes the net working capital requirement of the Post Office		

Table 4 – Total Capital Employed

6.14 Table 4 shows capital employed by the Department in balance sheet format as disclosed in the Department's Resource Accounts. It also shows as a separate line the net capital employed by NDPBs, which are not included in the Department's Resource Accounts, to give a total figure for capital employed by the Departmental Family.

Table 4 Capital employed by the Department of Trade and Industry

Assets on balance sheet at end of year	2002-03 Outturn	2003-04 Outturn	2004-05 Outturn	2005-06 Outturn	2006-07 Outturn	2006-07 Plan
Fixed Assets						
Intangible	0	747	698	1,293	448	499
Tangible	146,304	147,314	176,630	182,917	209,210	217,599
<i>of which</i>						
Land and Buildings	101,492	120,711	138,830	144,191	147,330	182,881
Transport Equipment	1,616	15	7	7	5	0
Plant and Machinery	14,681	1,748	1,643	1,549	1,789	552
Information Technology (1)	16,197	3,612	3,425	9,051	7,536	7,552
Furniture and Fittings	10,050	9,802	8,126	5,874	4,367	7,155
Assets under Construction	2,268	11,426	24,599	22,245	48,183	19,459
Investments (2)	3,571,666	4,030,209	3,682,323	4,536,733	5,638,781	5,260,188
Current Assets (3)	2,011,012	2,290,486	2,815,591	6,483,205	3,066,175	3,047,995
Creditors < 1 year	-952,023	-881,707	-977,045	-5,048,632	-1,471,085	-1,276,802
Creditors > 1 year	-601,811	-601,111	-574,159	-1,094,864	-541,072	-500,083
Provisions (4)	-14,219,813	-18,917,240	-17,838,964	-5,263,809	-4,495,281	-3,350,472
Capital employed within main Department	-10,044,665	-13,931,302	-12,714,926	-203,157	2,407,176	3,398,924
NDPB Net assets/liabilities	1,759,000	2,120,050	2,123,113	-27,542,194	-28,431,002	-29,131,572
Total Capital Employed in Departmental Family	-8,285,665	-11,811,252	-10,591,813	-27,745,351	-26,023,826	-25,732,648

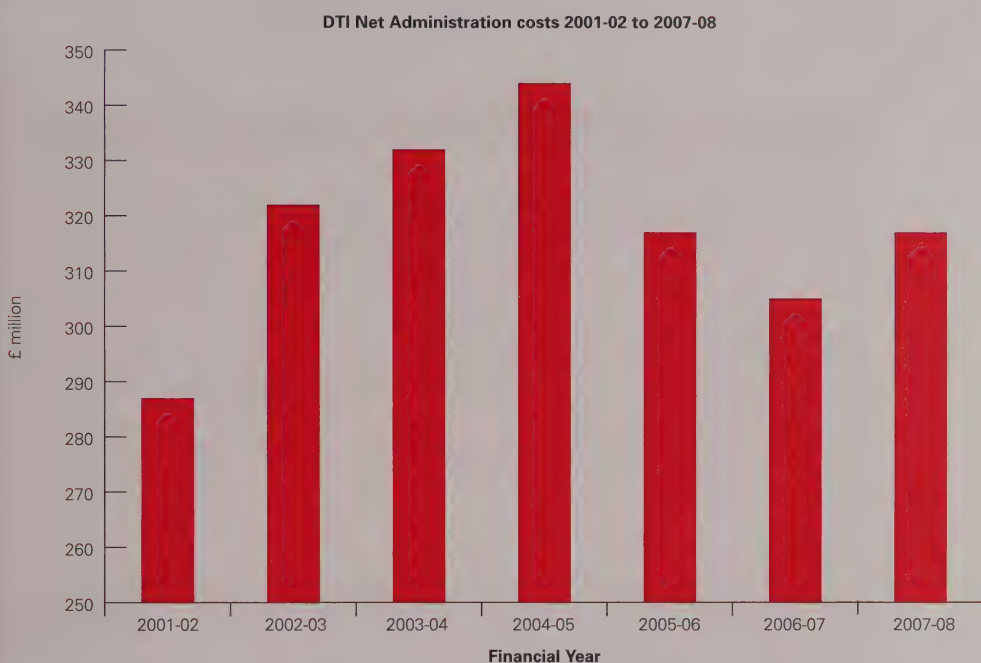
Notes

- (1) The Department's IT infrastructure is supplied and managed by Fujitsu Services Ltd under an off balance sheet PFI contract.
- (2) The Department's investment in the Investment Reserves of the British Coal Pension Scheme is subject to triennial actuarial revaluations.
- (3) The Department also has a current asset investment in respect of the British Coal Pension Scheme, also subject to actuarial revaluation.
- (4) In 2005-06 most of the Department's nuclear decommissioning provisions were transferred to the Nuclear Decommissioning Authority, disclosed here under NDPB Net assets/liabilities.

Table 5 – Administration Costs

6.15 Table 5 provides a more detailed analysis of the administration costs of the Department. It retains the high level functional analysis used in Table 1.

Table 5 Administration Costs of the Department of Trade and Industry



	2001-02 Outturn	2002-03 Outturn	2003-04 Outturn	2004-05 Outturn	2005-06 Outturn	2006-07 Outturn	2007-08 Plans
Gross Administration costs¹							
Pay bill	163	205	182	171	174	175	171
Other	255	260	274	190	147	152	160
Total Gross Administration Costs	418	465	456	361	321	327	331
Administration income ²	-131	-143	-124	-17	-6	-22	-14
Total Net Administration costs	287	322	332	344	315	305	317
Analysis by Activity							
Increasing UK Competitiveness	275	308	315	331	307	297	308
Increasing Scientific Excellence	12	14	17	13	8	8	9
Total Net Administration costs	287	322	332	344	315	305	317

Notes

1 Outturns have been restated from those disclosed in the 2006 Departmental Report following the transfer of the Employment Tribunals Service to the Ministry of Justice.

2 Administration income relates mainly to charges to minor occupiers of the Departmental estate, and fee income of the Insolvency Service and the Office of Civil Nuclear Security.

Table 6 – Staff Numbers

6.16 Table 6 shows staff numbers employed by the main Department and its agencies, including the trading funds. All staff numbers reported are an average taken across the financial year and expressed as full-time equivalents (FTE). The staff numbers have been compiled on the same basis as those in the Consolidated Departmental Resource Accounts. (see Note 9 in section 5.6)

Department of Trade and Industry (DTI)¹

	2004-05 Actual	2005-06 Actual	2006-07 Actual	2007-08 Plans ²
Department of Trade and Industry (DTI)³ (Gross Control Area)				
CS FTEs ⁴	3846.5	3302.4	3085.5	3056.6
Others ⁵	377.0	211.4	134.0	114.3
Total	4223.5	3513.8	3219.5	3170.9
Small Business Service (SBS)⁶ (Gross Control Area)				
CS FTEs	227.0	181.1	160.8	N/A
Others	92.0	60.8	6.8	N/A
Total	319.0	241.9	167.6	N/A

UK Trade & Investment⁷

	2004-05 Actual	2005-06 Actual	2006-07 Actual	2007-08 Plans
UK Trade & Investment (Gross Control Area)				
CS FTEs	646.0	565.1	513.3	513.3
Others	92.0	65.9	39.3	39.3
Total	738.0	631.0	552.6	552.6

- 1 Core DTI, where core DTI refers to DTI HQ, SBS, and DTI & SBS activities in Government Offices, committed to achieve 1010 staff reductions as part of the SR04 efficiency programme. This target was met in April 2006 and has been further exceeded during 2006-07. With regard to the SR04 headcount reduction the DTI baseline is the 1 April 2004 baseline and not the average workforce for the 2004-05 period.
- 2 The 2007-08 planned staff numbers are shown against DTI but in due course they will be allocated to its successor departments (BERR and DIUS, see section 1.1). Actual staff numbers for the new departments during 2007-08 will be reported next year in their respective Annual Reports.
- 3 The numbers for DTI 2004-05 to 2006-07 include staff working in DTI HQ, the Office for Manpower Economics (OME) and Government Office staff working on DTI and SBS activities. 2007-08 plans include planned staff numbers for the Departmental HQ, the Office for Manpower Economics (OME) and Government Office staff working on Departmental and SBS activities, and SBS.
- 4 CS FTEs refers to FTE permanent staff in civil service posts.
- 5 Others refers to non-permanent staff engaged on the objectives of the organisation.
- 6 As of 1 April 2007 SBS has ceased to be an executive agency, and it has continued as a policy unit within the Department. To reflect this change, SBS staff numbers will no longer continue to be shown separately and will instead be included in the Department's staff numbers.
- 7 UKTI committed to deliver 200 staff reductions in its offices in London, Glasgow, Cambridge and Birmingham during the SR04 period as part of the efficiency programme. This was achieved in December 2006.

6.17 The following table reports the annual average staff numbers over the financial year in the Department's executive agencies. As part of the SR04 efficiency programme the Department's executive agencies committed to deliver 270 staff reductions by March 2008; they are currently on track to meet this target. Please note that NWML and the Insolvency Service are included in the the Department's Consolidated Resource Account, and therefore their staff numbers are also reported in the accounts. Companies House and the Intellectual Property Office staff numbers are not included in the Department's Consolidated Resource Account, and their staff numbers are not reported in the accounts.

The Department's Executive Agencies

	2004-05 Actual ¹	2005-06 Actual	2006-07 Actual	2007-08 Plans
The Insolvency Service (Net Control Area)²				
CS FTEs	1634.5	1825	2146	2359
Others	Not available	355	418	441
Total	1634.5	2180	2564	2800
National Weights and Measures Laboratory (Net Control Area)				
CS FTEs	49	47	46	48
Others	1	1		
Total	50	48	46	48
Companies House (Trading Fund)				
CS FTEs	1206.5	1174	1132	1050
Others				
Total	1206.5	1174	1132	1050
Intellectual Property Office (Trading Fund)				
CS FTEs	980	949	911	912
Others	26	18	16	46
Total	1006	967	927	958
Advisory, Conciliation and Arbitration Service³ (Gross Control Area)				
CS FTEs	912	848	738	717
Others	18	34	51	48
Total	930	882	789	765

Notes:

- The 2004-05 data for the Insolvency Service was unaudited when published in a previous Departmental Report. The audited data, including a figure for Others was subsequently published in the Insolvency Service Annual Accounts for 2004-05 <http://www.insolvency.gov.uk/pdfs/annual2004-05web.pdf>. The audited total figure, including Others, was 1987.
- Figures for 2006-07 onwards include Companies Investigation Branch (CIB) staff and reflect staffing levels required for rising case numbers.
- ACAS is one of the Department's Non-Departmental Public Bodies. ACAS is included in the Department's Consolidated Resource Account, and so ACAS staff numbers are reported to allow for a consistent comparison between staff numbers reported in the consolidated resource account.

General introduction to Country and Regional Analysis Tables (7, 8 and 9)

6.18 Tables 7, 8 and 9 show analyses of the Department's spending by country and region, and by function. The data presented in these tables is consistent with the country and regional analyses (CRA) published by HM Treasury in Chapter 9 of the PESA 2007. The figures were taken from the HM Treasury public spending database in December 2006 and the regional distributions were completed in January and February 2007. Therefore the tables may not show the latest position and are not consistent with other tables in this document.

6.19 The analyses are set within the overall framework of Total Expenditure on Services (TES). TES broadly represents the current and capital expenditure of the public sector, with some differences from the national accounts measure Total Managed Expenditure. The tables show the central government and public corporation elements of TES. They include current and capital spending by the Department and its NDPBs, and public corporations' capital expenditure, but do not include capital finance to public corporations. They do not include payments to local authorities or local authorities' own expenditure.

6.20 TES is a near cash measure of public spending. The tables do not include depreciation, cost of capital charges, or movements in provisions that are in the Department's budget. They do include pay, procurement, capital expenditure, and grants and subsidies to individuals and private sector enterprises. Further information on TES can be found in Appendix E of PESA 2007.

6.21 The data is based on a subset of spending – identifiable expenditure on services – which is capable of being analysed as being for the benefit of individual countries and regions. Expenditure that is for the benefit of the UK as a whole is excluded.

6.22 Across government, most expenditure is not planned or allocated on a regional basis. Social security payments, for example, are paid to eligible individuals irrespective of where they live. Expenditure on other programmes is allocated by looking at how all the projects across the Department's area of responsibility, usually England, compare. So the analyses show

the regional outcome of spending decisions that on the whole have not been made primarily on a regional basis.

6.23 The Department's expenditure encompasses a wide range of programmes, and the method of allocation by region will vary according to the nature of each programme. Transfer payments to individuals are generally allocated to the region of the residence of the recipient. Transfer payments to institutions are normally allocated on the basis of the location of the recipient institution, as a proxy for the location that benefits from the spending. Where directly measured data is unavailable, suitable formulae determined in consultation with Departmental statisticians have been used.

Table 7 – Total spend by Country/Region

6.24 Table 7 shows identifiable expenditure on services, i.e. expenditure which can be shown as being for the benefit of specific countries and regions. It also includes, for completeness, a line for non identifiable expenditure i.e. that which is deemed to be on behalf of the United Kingdom as a whole. Notes to the table provide further information about specific regional spending.

Table 8 – Total spend per head by Country/Region

6.25 Table 8 analyses the data identifiable expenditure underlying Table 6, per head of population. The explanatory notes at the foot of Table 7 are also relevant to the regional analysis shown in Table 8.

Table 9 – Spend on function/ programme by Country/Region for 2005-06

6.26 Table 9 shows the outturns for **2005-06** in Table 6 analysed into functional categories. These categories are the standard United Nations Functions of Government (COFOG) categories, the international standard. The presentation of spending by function is consistent with that used in chapter 9 of Public Expenditure Statistical Analysis (PESA) 2007. These are not the same as Estimate Functions used in other tables in this report. Figures for 2006-07 were not yet available at the time of going to print.

Table 7: Trade and Industry identifiable expenditure on services, by country and region

	2001-02 Outturn	2002-03 Outturn	2003-04 Outturn	2004-05 Outturn	2005-06 Outturn	2006-07 Plans	£ million 2007-08 Plans
North East	156.0	193.1	331.8	288.4	278.9	323.4	275.7
North West	833.2	834.6	788.1	968.0	1056.8	1040.8	1066.5
Yorkshire and Humberside	303.8	415.7	498.5	541.0	488.9	535.5	461.3
East Midlands	231.0	299.4	266.7	318.3	348.9	378.4	316.9
West Midlands	206.3	260.8	290.7	360.8	398.8	340.5	329.2
Eastern	374.2	443.6	386.5	469.4	481.6	488.3	458.2
London	394.9	478.7	546.4	590.0	602.0	628.4	577.8
South East	514.5	624.4	645.3	782.5	1037.8	1169.6	1142.9
South West	272.2	308.2	308.8	342.9	391.2	442.5	432.4
Total England	3286.1	3858.5	4062.8	4661.3	5084.9	5347.4	5060.9
Scotland	427.5	482.1	546.2	570.3	993.0	1221.2	1120.7
Wales	186.6	232.3	253.7	225.7	245.8	274.8	220.2
Northern Ireland	31.6	36.2	30.6	36.6	40.5	56.6	61.0
Total UK identifiable expenditure	3931.8	4609.1	4893.3	5493.9	6364.2	6900.0	6462.8
Outside UK	235.2	254.2	314.0	349.5	399.1	397.8	399.9
Total identifiable expenditure	4167.0	4863.3	5207.3	5843.4	6763.3	7297.8	6862.7
Non-identifiable expenditure	519.9	502.8	682.0	650.0	765.4	931.5	1462.8
Total expenditure on services	4686.9	5366.1	5889.3	6493.4	7528.7	8229.3	8325.5

Notes

Expenditure in the North West of England is comparatively high because of the allocation of the bulk of costs relating British Nuclear Fuels plc and British Energy

Expenditure in Scotland is higher than the other territories outside England because of the allocation of over 50% of Departmental spend on nuclear decommissioning activities.

Expenditure in South East England and Scotland shows a marked increase from 2005-06 following the creation of the Nuclear Decommissioning Authority.

Table 8: Trade and Industry identifiable expenditure on services, by country and region, per head

	2001-02 Outturn	2002-03 Outturn	2003-04 Outturn	2004-05 Outturn	2005-06 Outturn	2006-07 Plans	£s per head 2007-08 Plans
North East	61.4	76.1	130.7	113.3	109.0	126.6	107.8
North West	123.0	123.0	115.8	141.8	154.4	151.5	154.8
Yorkshire and Humberside	61.0	83.3	99.5	107.4	96.5	104.9	89.9
East Midlands	55.1	70.9	62.7	74.4	81.0	87.3	72.7
West Midlands	39.1	49.2	54.7	67.6	74.3	63.4	61.1
Eastern	69.3	81.8	70.8	85.5	86.9	87.7	81.8
London	53.9	64.9	74.0	79.4	80.1	82.8	75.5
South East	64.1	77.6	79.9	96.5	127.1	142.5	138.6
South West	55.1	62.1	61.8	68.1	77.2	86.6	84.0
Total England	66.5	77.7	81.5	93.1	100.8	105.4	99.3
Scotland	84.4	95.4	108.0	112.3	194.9	239.0	219.1
Wales	64.1	79.5	86.4	76.4	83.1	92.3	73.7
Northern Ireland	18.7	21.3	17.9	21.4	23.5	32.7	35.1
Total UK identifiable expenditure	66.5	77.7	82.2	91.8	105.7	114.0	106.3

Table 9: Trade and Industry identifiable expenditure on services by function, country and region, for 2005-06

E's Millions Totals														
Not Identifiable														
Total identifiable expenditure														
OUTSIDE UK														
UK identifiable expenditure														
Northern Ireland														
Wales														
Scotland														
England														
South West														
South East														
London														
Eastern														
West Midlands														
East Midlands														
Yorkshire and Humberside														
North West														
North East														
TRADE AND INDUSTRY														
General public services														
Public and common services														
Total General public services														
International services														
International development assistance														
Other international services														
Total International services														
Public order and safety														
Police														
Total Public order and safety														
Enterprise and economic development														
Economic development and trade														
Support for business														
Total Enterprise and economic development														
Science and technology														
Science and technology														
Total Science and technology														
Employment policies														
Employment policies														
Total Employment policies														

Table 9: Trade and Industry identifiable expenditure on services by function, country and region, for 2005-06

	England	Scotland	Wales	Northern Ireland	UK identifiable expenditure	OUTSIDE UK	Total identifiable expenditure	Not identifiable	£'s Millions Totals
Agriculture, fisheries and forestry									
Other agriculture food fisheries policy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Agriculture, fisheries and forestry	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Environment protection									
Environmental protection	6.4	70.4	6.1	4.7	552.9	564.0	5.9	0.1	1122.9
Environmental research	1.6	7.6	8.1	2.0	89.3	13.6	3.4	0.2	106.5
Total Environment protection	8.0	78.0	14.2	6.7	642.2	577.6	9.3	0.3	1229.4
Health									
Health research	2.3	18.0	4.5	9.0	193.9	20.3	2.3	0.0	216.5
Total Health	2.3	18.0	4.5	9.0	193.9	20.3	2.3	0.0	216.5
Recreation, culture and religion									
Broadcasting	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Heritage, arts, libraries and films	3.2	6.4	4.8	3.2	70.0	6.4	2.4	0.8	79.6
Total Recreation, culture and religion	3.2	6.4	4.8	3.2	70.0	6.4	2.4	0.8	79.6
Social protection									
Family benefits, income support and tax credits	1.7	5.2	3.8	3.4	43.9	4.2	2.0	0.0	50.1
Public sector occupational pensions	0.8	59.7	1.8	1.4	141.3	11.0	2.1	0.3	154.7
Unemployment benefits	3.6	8.9	27.4	6.9	228.3	12.5	11.9	0.3	253.0
Total Social protection	6.1	73.8	33.0	11.7	413.5	27.7	15.0	0.6	457.8
TOTAL TRADE AND INDUSTRY	278.9	1056.8	488.9	349.0	5085.8	993.2	40.6	6365.4	399.2
									7530.1

Section 6.4

Glossary of financial terms

AME – Annually Managed Expenditure. Expenditure not controlled through the Spending Review process. AME budgets are set in consultation with HM Treasury during twice yearly reviews. AME expenditure is separated from DEL because it is by nature volatile and difficult to effectively manage in the 3 year Spending Review framework. The Department's AME expenditure is mainly concerned with the discharge of nuclear decommissioning liabilities and payments to former mineworkers in respect of health claims.

Capital – Expenditure on tangible fixed assets (net of disposals and profit/loss on disposal), new investments and capital grants.

DEL – Departmental Expenditure Limits; the Department's 3 year budget set as part of the Spending Review process.

Executive Agencies – For the purposes of these tables, the Department's Executive Agencies are the Small Business Service, the Insolvency Service and the National Weights and Measures Laboratory. The Patent Office and Companies House are Trading Funds, and their expenditure is not included in the expenditure tables, though they are included in the headcount table.

Grant in aid – Cash payments made to bodies (normally NDPBs) to fund their activities. Grant in aid is paid where the government has decided, subject to parliamentary controls, that the recipient body should operate at arm's length from the sponsoring Department.

Near cash – Transactions measured on an accruals basis which result in real cash flows in the near future e.g. expenditure on pay, purchases and current grants, subsidies and payments against provisions.

Non-Budget Expenditure – Expenditure approved in the Supply Estimates and included in the Department's Resource Accounts which does not score against the Department's DEL or AME budgets. Most commonly refers to the cash funding of NDPBs by grant in aid (see above). The actual expenditure by the NDPBs scores in budgets.

Non-cash – Transactions which are included to reflect the full economic cost of activities and the usage of long-term assets e.g. depreciation, profit or loss on disposal of balance sheet assets, cost of capital and movements in provisions.

Non-Departmental Public Bodies – A list of NDPBs for which the Department acts as sponsor is included in Section 3.3.

Supply Estimates – The means by which Parliament grants formal approval for the Department's annual expenditure plans. An Estimate can comprise one or more Request for Resources (RfR). Requests for additional funds in-year are made in

Supplementary Estimates (normally in winter and spring). See Section 5 for further detail on the Estimates process.

Unallocated provision – The element of the total DEL settlement not initially allocation to specific functions or objectives.

Voted and Non-voted Expenditure – Voted expenditure comprises expenditure by the main Department and its executive agencies, as approved in the Supply Estimates. Non-voted expenditure comprises expenditure by the NDPBs sponsored by the Department. Supply Estimates authorise the issue of cash to NDPBs in the form of grant in aid.

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Annex A.1

Quality of data systems used

A1. Performance against the Department's current public service agreement targets is described throughout chapter 2. Various data sources are used to measure this performance. This annex contains brief comments on methodology and reliability of such data systems used to measure performance against the Department's current PSA targets as well as our efficiency targets.

A2. In the interest of brevity, where such information is available elsewhere (for instance in the online publication of a survey used), this Report only provides a link (internet links are correct at time of publication of this Report, but are subject to change). In particular, where performance is measured on the basis of ONS "National Statistics" data, this Report does not provide details on the quality of such data. The term "National Statistic" is applied to data series that the ONS believe to be sufficiently reliable.

Efficiency targets (page 140)

A3. Descriptions of each of the major efficiency delivery programme work streams, and greater detail on measurement metrics and methodologies, data sources and quality assurance measures are included in the Department's efficiency technical note.¹

A4. Each Objective within the Business Plan includes at least one efficiency target, demonstrating that efficiency is delivered by every part of the Department's business. The Department's performance management framework demonstrates through quarterly scorecard reporting the impact of efficiency on the Department's progress towards PSA targets and other business planning objectives, requiring a balanced examination of specific budget lines against performance management targets. To date, scorecard reports have shown maintained or improved performance against the lines being tracked as efficiency gains.

A5. The OGC Efficiency Team review the progress of the Department's efficiency delivery programme at a twice-yearly Moderation Panel. The Department received positive feedback at its

most recent assessment in November 2006.

The Department's Internal Audit Unit has also commissioned periodic reviews of the Department's financial and quality efficiency measures and monitoring systems, involving independent assessment by PricewaterhouseCoopers (PWC). The Department's three main efficiency delivery work streams (Business Support, RDAs and Research Councils) include within their delivery plans and measurement methodologies details of data sources for both financial and qualitative data, which are auditable.

A6. An initial audit report by PWC demonstrated robust efficiency reporting, measurement and data sources by the RDAs and included recommendations for improvement by the Research Councils, which were largely addressed through the publication and implementation of the Research Councils' efficiency measurement methodology by RCUK (available at the RCUK website²). A further audit report by PWC took place in 2006 and has further supported ongoing efficiency reporting.

¹ The Efficiency Technical Note is available from the Department's website. www.berr.gov.uk/about/strategy-objectives/efficiency-technical-note/page25152.html

² www.rcuk.ac.uk/aboutrcuk/efficiency/default.htm

SR04 PSA 1 – Productivity (page 20)

A7. The ONS provide the data on labour productivity. Data on labour productivity as defined in per worker terms is classified as a “National Statistic” and recently data as defined in per hour worked terms was upgraded to this status as well from “experimental”. The term “National Statistic” is applied to data series that the ONS believe to be sufficiently reliable.

A8. Both versions of the productivity data may be subject to future revisions and are affected by the economic cycle. To take into account the changes in the economic cycle, an appropriate base year is chosen for comparison. Given these issues the ONS publishes the following caution with the ICP data releases: “differences of a few percentage points between the productivity estimates from individual countries should not be seen as significant because of the measurement

difficulties that are present when making international comparisons”.

A9. Recently there have been significant downward revisions to ONS data on French output per hour worked data. This follows revised estimates by INSEE (French national statistics agency) showing greater hours worked than previously estimated, back to 1990.

A10. The sources of data used in the indicators of productivity were selected following an extensive consultation that was undertaken in 1999, and again following Budget 2004. The data for the indicators is derived from a variety of sources, including national statistical agencies, the OECD and the World Bank, each of which is the subject to peer review processes.

SR04 PSA 2 – Science and innovation (page 26)

1. World-class research at the strongest centres of excellence in the UK

A11. The benchmarking study undertaken by Evidence Ltd on behalf of the Department compares the UK against a comparator group of 25 countries including the G8. Data sources are: Thomson ISI,¹ the world’s premier source of information on scientific journal publications and their citations; and OECD,² a major source for international research and development statistical analyses.

2. Sustainable and financially robust universities and public research institutes

A12. The following data sources were used for this attribute: the first report from the UK Higher Education Funding Councils;³ and the first monitoring exercise on Public Sector Research Establishment sustainability.⁴

3. Greater responsiveness of the research base to the needs of the economy and public services

A13. HESA (Higher Education Statistics Agency) is the official UK agency for collection, analysis and dissemination of quantitative information about higher education. Data on university exploitation activity is gathered systematically through the HEBCI survey.⁵ The Higher Education Council for England has published the survey annually since 2001. The survey report analyses a wide range of knowledge transfer and business interaction activities and also looks at Higher Education Institutes and policies, priorities and resourcing in business and community activities. Data is provided as part of the HEIs core reporting requirements to their funding council and is verified.

A14. The PSRE data is drawn from the PSRE Knowledge Transfer Survey,⁶ which is managed by the Office of Science and Innovation. This has only been run for two years and is inevitably a less mature data source and still needs to be developed further.

¹ www.isinet.com

² www.oecd.org

³ www.dti.gov.uk/files/file31812.pdf

⁴ www.dti.gov.uk/science/science-funding www.dti.gov.uk/innovation/innovation-statistics/cis/page10957.html

⁵ www.hesa.ac.uk

⁶ www.dti.gov.uk/science/knowledge-transfer/psre/page12062.html

4. Increasing business investment in R&D and increased business engagement

A15. BERD data¹ is collected from R&D-performing companies by the ONS using an annual survey. The CIS² is a postal survey of a sample of business enterprises, which collects quantitative and qualitative information on a range of innovation-related activities as part of a survey carried out across EU countries. It is undertaken by the ONS, on behalf of the Department. Patent data is routinely supplied by the Patent Offices concerned and normalised to country populations by OECD.

5. A more responsive supply of science, technology, engineering and maths skills to the economy

A16. Data on students receiving enterprise training was previously collected as part of the contractual agreement with the Science Enterprise Centres as part of their OSI funding, which has now ceased. According to UKSEC “well over 160,000 students and executives have been touched by enterprise and entrepreneurship courses since 2000”³. The indicator for PhD awards comes from the OECD Education at a Glance Database Vol 2006 issue 01.⁴

SR04 PSA 3 – Competition and consumers (page 70)

Competition

A17. The KPMG 2004 peer review of competition policy⁵ asked 215 experts from different countries to rank the effectiveness of the UK competition regime with its peers. A question early on in the survey ensured it only captured competition experts; however, respondents were not split evenly between countries, with a higher proportion of respondents from the US and the UK. There were about 35 follow-up face-to-face interviews to capture more qualitative information about the performance of the competition regime.

A18. In addition, the Global Competition Review is an independent survey, into which the Department has no input, where enforcement agencies’ activities are rated through a mixture of “editorial opinion” and a survey of 500 “users” (in other words, those who have had cause to liaise with a competition authority). This represents a useful secondary source of information, but the peer review remains the primary source.

Consumers

A19. The OFT consumer awareness survey⁶ was carried out by Synovate in early 2006. Results are based on face-to-face interviews

with 2,048 people and are comparable to previous surveys carried out in 2003 and 2004. The Department does not fund or input into the design of the survey.

A20. In January 2006, IPSOS Public Affairs carried out the Consumer Direct survey and sampled people who had previously called one of its eight contact centres.

A21. There is currently no established methodology to compare the performance of the UK consumer regime accurately to that of other countries. As described previously, the Department is leading the OECD research programme to establish best practice in consumer policy and work towards international consensus on what makes an effective regime.

Competition and Consumers

A22. The findings of the OFT business and consumer perceptions report⁷ are based on independent surveys carried out by Synovate on behalf of the OFT and the Central Office of Information (COI). The survey is based on the responses of over 1,000 businesses and consumers from interviews conducted either by telephone or face-to-face respectively. The Department does not fund or input into the design of the survey.

¹ www.dti.gov.uk/science/science-funding/set-stats/berd/index.html

² www.dti.gov.uk/innovation/innovation-statistics/cis/page10957.html

³ <http://www.enterprise.ac.uk/about/>

⁴ www.sourceoecd.org

⁵ www.berr.gov.uk/files/file32813.pdf

⁶ www.offt.gov.uk/shared_offt/about_offt/oft847b.pdf

⁷ OFT (2006) Perceptions of Markets and Competition: Business and Consumer Research Report. See: www.offt.gov.uk/shared_offt/about_offt/oft847b.pdf

SR04 PSA 4 – Energy (page 90)

1. Greenhouse gas emissions/ carbon dioxide emissions

A23. The National Environmental Technology Centre (NETCEN)¹ publishes an annual inventory on behalf of the Department for Environment, Food and Rural Affairs of historic greenhouse gas emissions in the UK, usually within 15 months of the end of the calendar year in question. Data is available on an annual basis back to 1990 and is subject to the requirements of National Statistics. Analysis by NETCEN indicates uncertainties in carbon dioxide emissions estimates are +/- 2%, and for the "basket" of six greenhouse gases they are +/- 15%. Provisional data on carbon dioxide emissions is estimated from energy data and published annually by the Department in "Energy Trends" in March following the end of the calendar year in question.² There are uncertainties associated with all estimates of pollutant emissions. Although for any given year considerable uncertainties may surround the emission estimates for a pollutant, trends over time are likely to be much more reliable.³ The majority of provisional estimates are within 1% of the final figures. The level of projected emissions is dependent on the assumption of future economic growth. The modelling assumption for economic growth is compatible with HM Treasury's current announced growth forecasts given in last year's Pre-Budget Report (PBR) and Budget Statement.

A24. Data on renewable energy sources is available annually in the Digest of UK Energy Statistics.⁴

2. Security of supply

A25. The National Grid Winter 2006-07 Consultation Report published by Ofgem on 21

September 2006 set out the detailed analysis for the supply-demand outlook for last winter.⁵ This was the result of an extensive consultation with all sides of the gas and electricity industry and as such represented a broad consensus view of industry experts.

A26. Section 172 of the Energy Act 2004 requires the Secretary of State to publish and lay before Parliament a report dealing with the short and long term availability of electricity and gas for meeting the reasonable demands of consumers in Great Britain. The second of these reports was published in July 2006.⁶ It sets out the outlook for security of energy supplies for winter 06-07, including the National Grid preliminary outlook. The report also looks at the longer term outlook for the next seven to ten years, drawing on the more detailed information contained in the latest JESS report.⁷

A27. JESS reports, generally published twice a year, contain data on gas and electricity supply margins, drawing in particular on information published by National Grid as well as the Department's own analysis and data. The seventh and final report was published in December 2006.⁸

A28. In the Energy Review we undertook to develop new arrangements for the provision of forward-looking energy market information and analysis relating to security of supply. We will be looking here to improve the quality and dissemination of forward-looking market information and analysis, or example updating the indicators more frequently, an audit of existing security of supply information to identify where current gaps exist, and improving the availability of the information on the webpage. This work will draw on analysis by National Grid as well as in-house data and expertise.

¹ www.netcen.co.uk

² www.berr.gov.uk/energy/statistics/publications/trends/index.html

³ For more information on these uncertainties see the DEFRA website at:

⁴ www.defra.gov.uk/environment/statistics/airqual/eqemissions.htm

⁵ www.berr.gov.uk/energy/statistics/publications/dukes/page29812.html

⁶ www.ofgem.gov.uk/

⁷ www.berr.gov.uk/files/file31630.pdf

⁸ In 2001, the Government and Ofgem established the Joint Energy Security of Supply Group (JESS) working group which monitors developments in the gas and electricity market and looks for ways of helping the market to work effectively to secure energy supplies by providing info to market participants to help them plan investment decisions.

⁹ www.berr.gov.uk/files/file35989.pdf

3. Fuel poverty

A29. The fourth Annual Progress Report on the UK Fuel Poverty Strategy provides an update on actions taken across, and outside of, government and sets out the fuel poverty data for 2004.¹ The report takes its fuel poverty data from the English House Condition Survey² conducted on a continuous rolling basis. The 2004 figures for fuel poverty in England have been provided using a methodology that was updated following

consultation and peer review. Full details of the methodology used to produce the fuel poverty statistics can be found in an annex to the Annual Progress Report.³

4. Energy market competitiveness

A30. Data on competitiveness is measured using a methodology developed with an external contractor, OXERA, and peer reviewed by energy market experts.⁴

SR04 PSA 5 – Trade barriers (page 72)

A31. The Department's performance report on PSA 5 is based on a qualitative assessment of progress. Performance is regularly reviewed and discussed with other Government departments (including HM Treasury). Quantitative

assessment of changes in tariffs and changes in the level of EU imports from least developed countries has not been possible at this stage because of the time lag between policies being agreed and them taking effect.

SR04 PSA 6 – Enterprise (page 47)

1. An increase in the number of people considering going into business

A32. The data for this sub-target comes from the Small Business Service (SBS) Household Survey of Entrepreneurship.⁵ This survey is managed by the SBS Analytical Unit. Each survey comprises telephone interviews in England by an external research organisation, with 6,000 adults in 2001, 10,000 in 2003 and over 15,000 in 2005. It is not a National Statistics product but results are weighted to reflect the adult population in England, using Census of Population 2001 data. Results from the next survey will be available in 2008.

2. An improvement in the overall productivity of small firms

A33. Productivity is measured using data from the ONS Annual Business Inquiry (ABI).⁶ This is a National Statistics product. The ABI is a large-scale annual survey of around 70,000 registered businesses in the UK, conducted in two parts – financial and employment. Businesses with more than 250 employees are surveyed every year, with smaller businesses surveyed less frequently to reduce administrative burden on small firms. As with any sample survey, there will be sampling errors around any estimates from the ABI. However, sampling errors are small for the aggregates of the main ABI variables such as GVA and employees, and indeed the sample is specifically designed to achieve this.⁷

¹ www.defra.gov.uk/environment/energy/fuelpov/pdf/fuelpovstrat-annrpt4.pdf

² <http://communities.gov.uk/index.asp?id=1502421>

³ www.berr.gov.uk/files/file29694.pdf

⁴ www.dti.gov.uk/energy/markets/competitiveness/page28432.html

⁵ www.berr.gov.uk/files/file38260.pdf

⁶ www.statistics.gov.uk/abi

⁷ The financial inquiry covers around two thirds of the UK economy. The coverage of the employment inquiry is wider. Therefore the productivity measure, which combines data from the two inquiries, excludes some sectors such as financial intermediation, health and education, where a GVA per employee measure is not available. Around a quarter of the businesses covered by the measure are in the primary, production and construction sectors, and the remaining three-quarters are in services (based on 2002 data). Since exactly the same sectors are excluded from the measure for both small and large businesses, the conclusions about relative changes in productivity over time are unaffected.

A34. Figures in the graph shown for this sub-target may change if the ONS publish revised data, particularly as regards the most recent years covered. This was the case when the ONS published revised 2003 ABI data in June 2006. As a result, the 2002-03 data shown in the graph differs from the numbers given for this period in the DTI Departmental Report 2006.¹ Similarly, the data given above for 2003-04 should be treated as provisional.

3. *More enterprise in disadvantaged communities*

A35. The Office for National Statistics Labour Force Survey (LFS)² is a sample survey, with over 120,000 people interviewed in each three-month period, and is a National Statistics product. The sample sizes are not large enough to provide accurate data for individual wards, but

they are large enough to provide data for all the most deprived wards in England collectively. The deprived wards are identified using the 2000 indices of deprivation produced by the then Department for the Environment, Transport and the Regions (DETR) and now held by the Department for Communities and Local Government (DCLG). The website³ describes how these were created for every ward in England and how DETR consulted users over their suitability. DCLG have since published the 2004 indices of deprivation, but these give a deprivation measure for each Super Output Area (SOA), rather than for each ward, and the LFS has only recently added data for SOAs. Consideration will be given in the future to re-defining disadvantaged areas using the 2004 indices.

SR04 PSA 7 – Regional economic performance (page 53)

A36. Performance against this target is measured through estimates of the trend rate of growth in GVA per head in each region. The gap in growth rates is measured by comparing the average growth rate of regions that currently have above-average GVA per head with the average growth rate of regions that currently have below-average GVA per head. The key to measuring this PSA target accurately is to capture as wide a range of economic activities occurring within the regions as possible. GVA, by definition,⁴ encapsulates a very diverse range of outputs.

A37. To improve and develop regional estimates, the ONS is involved in an ongoing quality assurance process of the input data used to calculate estimates of regional GVA. In line with Allsopp Review recommendations, the RDAs have agreed to work with ONS to deliver a

full regional statistical presence by March 2007 which will help us measure the target more accurately. Work is proceeding to strengthen the regional GVA data, including production of a real regional GVA series by December 2009. Because of the time required to develop a real regional GVA data series, the Regional Economic Performance Progress Report has reported on regional GVA adjusted by a national deflator as the most appropriate interim measure.

A38. There are 21 PSA indicators, coming from a variety of sources and drawing as far as possible from relevant indicators in other PSA targets, which contribute to regional economic performance. The PSA Steering Group keeps this list of indicators under review, and supplements and amends it where necessary.

¹ www.berr.gov.uk/about/strategy-objectives/annual-spending/page28803.html

² www.statistics.gov.uk/labour

³ www.communities.gov.uk/indices

⁴ GVA is the difference between output and intermediate consumption for any given sector/industry, i.e. the difference between the value of goods and services produced and the cost of raw materials and other inputs which are used up in production.

SR04 PSA 8 – UK Trade & Investment (page 64)

A39. Data for indicator (i) is collected via internal monitoring of resource budget.

A40. Data for indicators (ii) and (iii) is collected from quarterly independent monitoring surveys. Until Q4 2005 these were carried out by Reading Business School and covered 800 companies each year. From the beginning of 2006 a new system, the Performance Impact and Monitoring Survey (PIMS), conducted by OMB, was introduced. This extends coverage to 2,500 companies each year and gathers a broader range of performance and evaluation data. The survey is based on telephone interviews with a sample of users of UK Trade & Investment's principal services, and includes questions both on improvements in company performance following UK Trade & Investment interventions, and on the quality of the service provided. There are cross-checks to enable inconsistent responses to be identified, and follow-up interviews to provide a further check on the accuracy of firms' initial responses. Therefore the data reported here, which is from the first round of interviews, is provisional; as

subsequent interviews are carried out at two, or in some cases three stages after receipt of support, the results reported could be subject to revision.

A41. As the introduction of PIMS does not appear to have affected the "new-to-market" indicator, one possible interpretation of the significant increase in performance against the "new-to-export" indicator is that responses from less experienced exporters may be more sensitive to interview timing than is the case for experienced exporters. Further rounds of follow-up interviews may help to confirm this.

A42. Data for indicator (iv) is taken from the UNCTAD World Investment Report and online FDO database.

A43. Data on indicator (v) is based on the electronic project tracking system, using definitions of success agreed by the Committee on Overseas Promotion (COP), a joint UK Trade & Investment Inward Investment and RDA committee. The Department's Internal Audit Team validates results.

SR04 PSA 10 – Maximising potential in the workplace (page 77)

A44. The data to monitor ethnic minority enterprise comes from the Labour Force Survey,¹ see page 295 above.

A45. The Fair Treatment at Work Survey is Britain's first large scale official survey of unfair treatment, perceived discrimination, bullying and sexual harassment at work. It involved face to face interviews with 3,936 employees across Great Britain.² The final assessment will be made using the next Fair Treatment at Work Survey expected in 2008.

A46. The Workforce Employee Relations Survey 2004 involved face to face interviews with 3,200 managers, 1,000 worker representatives and self-completion questionnaires from 20,000 employees, covering both large and small workplaces.³

A47. The DTI Awareness Knowledge and Exercise of Employment Rights Survey 2005 used computer-assisted personal interviewing, and 1,038 interviews of employees were carried out, giving a response rate of 58%.⁴

¹ www.statistics.gov.uk/labour

² The Executive summary can be seen at: www.berr.gov.uk/files/file38386.pdf

³ Initial findings from WERS 2004 can be seen at: www.routledge.com/textbooks/0415378133/pdf/insideWP.pdf

⁴ www.dti.gov.uk/files/file27222.pdf

SR04 PSA 11 – Nuclear Decommissioning Authority (page 105)

A48. The NDA has an active programme to promote best practice, and a common approach to the estimation of costs. As regards efficiency gains, contractors' data is analysed each month by the NDA, and the NDA can press for

improvement. The efficiency gains for 2005-06 are from the NDA Annual Report and Accounts for 2005-06.¹

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¹ www.nda.gov.uk/documents/nda_annual_report_&_accounts_2005-06.pdf

Annex A.2

PSAs from previous Spending Reviews

A49. This annex contains an overview of all public service agreement targets since the 2000 Spending Review (the final overview of the 1998 Comprehensive Spending Review targets was published in the Department's 2006 Autumn Performance Report.¹

A50. This is followed by a performance report on some PSAs from previous spending reviews, where such PSAs are significantly different from the current set of PSAs, or where such PSAs still remain outstanding. Where PSA targets from previous spending reviews are similar or identical to those from SR04, they have been rolled over into the current targets and are not reported on separately.

Spending Review 2000

Spending Review Target	Performance
1. Improve UK competitiveness by narrowing the productivity gap with the US, France, Germany and Japan over the economic cycle. (Joint target with HM Treasury)	On Course – This target was carried forward in similar terms in SR04 PSA 1.
2. Help build an enterprise society in which small firms of all kinds thrive and achieve their potential, with (i) an increase in the number of people considering going into business, (ii) an improvement in the overall productivity of small firms and (iii) more enterprise in disadvantaged communities.	Partly Met – Part (i) was not met, Parts (ii) and (iii) were met, This target is carried forward in similar terms in SR02 PSA 6 and SR04 PSA 6. The progress reports on these targets have more detail.
3. Make and keep the UK the best place in the world to trade electronically, as measured by the cost of internet access and the extent of business-to-business and business to consumer transactions carried out over e-commerce networks.	Not Met – Final assessment of the target was set out in the 2005 Departmental Report. Related to the SR04 National Standard.
4. Improve the economic performance of all regions measured by the trend in growth of each regions GDP per capita. (Joint target with HM Treasury and DCLG)	On Course – This target is carried forward in similar terms in SR04 PSA 7.
5. Improve the overall international ranking of the UK's science and engineering base, as measured by international measures of quality, cost-effectiveness and relevance.	Met – The UK's share of world citations in 2004 was 12.2% against a target of 11.5%. This target is carried forward in similar terms in SR04 PSA 2.
6. Increase the level of exploitation of technological knowledge derived from the science and engineering base, as demonstrated by a significant rise in the proportion of innovating businesses citing such sources.	Partly Met – Mixed outcomes for the basket of indicators, APR 2004 has more detail. This target is carried forward in similar terms in SR04 PSA 2.

¹ www.dti.gov.uk/about/service-standards/performance-reports/page24986.html

Spending Review 2000 (continued)

Spending Review Target	Performance
7. Have the most effective competition regime in the OECD, as measured by peer review, and achieve a fairer deal for consumers, as measured by the level of consumer knowledge and understanding of rights and sources of information.	Partly Met – Competition was not met, as UK was rated 3rd behind US and Germany in 2004. However, the consumers element was met. APR 2006 has more detail. This target is carried forward in similar terms in SR04 PSA 3.
8. Ensure competitive gas and electricity prices in the lower half of the EU/G7 basket, while achieving security of supply and social and environmental objectives.	Partly Met – 2004 data showed UK prices were among the lowest in EU, but the UK obtained 3.6% of its electricity from renewable sources, against a target of 5%. APR 2005 has more detail. This target is carried forward in similar terms in SR04 PSA 4.
9. Improve the environment and the sustainable use of natural resources, including by reducing greenhouse gas emissions by 12.5% from 1990 levels and moving towards a 20% reduction in CO2 emissions by 2010. (Joint target with DEFRA).	On Course – This target is carried forward in similar terms in SR04 PSA 4.
10. Deliver a measurable improvement in the business performance of Trade Partners UK customers. (Joint target with FCO).	Partly Met – Final assessment of the target was set out in the 2005 Departmental Report. Related to SR04 PSA 8.
11. Maintain the UK as the prime location in the EU for foreign direct investment. (Joint target with FCO).	Met – Final assessment of the target was set out in the 2005 Departmental Report. Related to SR04 PSA 8.
12. Achieve value for money improvements of 2.5% a year across the Department as measured by a set of indicators.	Met – Final assessment of the target was set out in the 2005 Departmental Report. The current position on the Department's efficiency programme is reported on page 140 of this Report.

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Spending Review 2002

Spending Review Target	Performance
1. Demonstrate progress by 2006 on the Government's long-term objective of raising the rate of UK productivity growth over the economic cycle, improving competitiveness and narrowing the productivity gap with the US, France and Germany. (Joint target with HM Treasury)	On Course – This target is carried forward in similar terms in SR2004 PSA 1.
2. Improve the relative international performance of the UK's science and engineering base, the exploitation of the science base and the overall innovation performance of the UK economy.	On Course – This target is carried forward in similar terms in SR04 PSA 2.

Spending Review 2002 (continued)

Spending Review Target	Performance
<p>3. Place empowered consumers at the heart of an effective competition regime, bringing UK levels of competition, consumer empowerment and protection up to the level of the best by 2006, measuring the effectiveness of the regime by peer review and other evidence, to ensure a fair deal for consumers and business working in collaboration with the relevant regulatory agencies.</p>	<p>On Course – This target is carried forward in similar terms in SR04 PSA 3.</p>
<p>4. Ensure the UK ranks in the top 3 most competitive energy markets in the EU and G7 in each year, whilst on course to maintain energy security, to achieve fuel poverty objectives; and (joint with DEFRA) improve the environment and the sustainable use of natural resources, including through the use of energy saving technologies, to help reduce greenhouse gas emissions by 12.5% from 1990 levels and moving towards a 20% reduction in carbon dioxide emissions by 2010.</p>	<p>On Course – This target is carried forward in similar terms in SR04 PSA 4 except sustainable use of natural resources which is reported on separately below.</p>
<p>5. Secure agreement by 2005 to a significant reduction in trade barriers leading to improved trading opportunities for the UK and developing countries. (Joint target with DFID and FCO)</p>	<p>Not Met – Final assessment of the target was set out in APR 2006. This target is carried forward in similar terms in SR04 PSA 5.</p>
<p>6. Help to build an enterprise society in which small firms of all kinds thrive and achieve their potential with (i) an increase in the number of people considering going into business, (ii) an improvement in the overall productivity of small firms, and (iii) more enterprise in disadvantaged communities.</p>	<p>On Course – The majority of this target is carried forward in similar terms in SR04 PSA 6. Part (iii) is reported on separately below</p>
<p>7. To make sustainable improvements in the economic performance of all English regions and over the long term reduce the persistent gap in growth rates between the regions, defining measures to improve performance and reporting progress against these measures by 2006. (Joint target with HM Treasury and DCLG)</p>	<p>On Course – This target was carried forward in similar terms in SR04 PSA 7.</p>
<p>8. Make the UK the best place in the world for e-business, with an extensive and competitive broadband market, judged using international comparative measures of business uptake and use of information and communication techniques.</p>	<p>On Course – This PSA was replaced by a National Standard. The current position on this target and the Standard is reported on page 59 of this report.</p>
<p>9. By 2006, working with all Departments, bring about measurable improvements in gender equality across a range of indicators, as part of the Government's objectives on equality and social inclusion.</p>	<p>Not Met – Final assessment for this target is set out below.</p>

Spending Review 2002 (continued)

Spending Review Target	Performance
10. In the three years to 2006, taking account of the economic cycle, increase the employment rate and significantly reduce the difference between the overall employment rate and the employment rate of ethnic minorities. (Joint target with DWP)	On course – This PSA is reported on in greater detail below.
11. Deliver a measurable improvement in the business performance of UK Trade & Investment's international trade customers; and maintain the UK as the prime location in the EU for foreign direct investment, (Joint target with FCO)	On Course – This PSA was carried forward in similar terms in SR04 PSA 8.
12. Achieve value for money improvements of 2.5% a year across the Department as measured by a basket of indicators.	Met – Final assessment of the target was set out in APR 2006. The current position on the Department's efficiency programme is reported on page 140 of this Report.

For further information on the links between the various spending reviews and PSA targets please see the 2004 Autumn Performance Report.¹

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¹ www.dti.gov.uk/about/service-standards/performance-reports/page25273.html

SR02 PSA 4**On Course**

Ensure the UK ranks in the top 3 most competitive energy markets in the EU and G7 in each year, whilst on course to maintain energy security, to achieve fuel poverty objectives; and (joint with the Department for Environment, Food and Rural Affairs) improve the environment and the sustainable use of natural resources, including through the use of energy saving technologies, to help reduce greenhouse gas emissions by 12.5% from 1990 levels and moving towards a 20% reduction in carbon dioxide emissions by 2010.

A51. Only the “Sustainable use of natural resources” element of this PSA is being reported on here. The rest of the PSA was rolled over into PSA 4 in SR04 and is reported in chapter 2.

Current position

A52. The latest data, from 2003-04, showed a slight fall in the total amount of waste from business, from 75 million tonnes for 1998-99 to 73.2 million tonnes for England and Wales in 2002-03. Of that total, 29.2 million tonnes of waste were landfilled in 2002-03, some 82% of the total of 35.6 million tonnes landfilled in 1998-99.

A53. For the first time, recovery (recycling, re-use and land recovery) has overtaken landfill as the most common method of waste management for industrial and commercial waste, with 32 million tonnes being recycled or re-used and over 8 million tonnes being incinerated, treated or spread on land (the way in which a further 4 million tonnes of waste was managed was not recorded).

Quality of data systems used

A54. Comprehensive information on commercial and industrial waste is limited. Figures have been taken from the Environment Agency’s Commercial and Industrial Waste survey 2002-03. Separate, but linked, surveys of commercial and industrial waste in England and in Wales were undertaken to obtain information

on the types and quantities of waste produced in 2002-03. Further information is available on the Environment Agency website. The Environment Agency is not currently planning another survey of commercial and industrial waste. The future data source is to be considered in the light of Defra’s Waste Data Strategy.

SR02 PSA 6 (iii)**On Course**

More enterprise in disadvantaged communities.

Current position

A55. In 2005, there were 27 VAT registrations per 10,000 resident adults in the 20% most deprived areas in England, compared to 42 VAT registrations per 10,000 resident adults in the 20% least deprived areas. This is a gap of 35%.

A56. In every year since 2000, with the exception of 2001-02, the gap in VAT registration rates has narrowed between the most and least deprived areas. Overall, there has been a 6.3 percentage point narrowing of the gap, which is

more than the 5 percentage points target set (the target is for a 1 percentage point narrowing of the gap per year). This target will be finally assessed in late 2007, based on 2006 data.

A57. The widening of the gap between 2001 and 2002 occurred even though there was more enterprise in deprived areas, since VAT registration rates increased more in the least deprived areas.

Figure A.1 – VAT registration rates (registrations per 10,000 resident adults) in the most and least deprived areas in England, 2000 to 2005

Year	Rate – most deprived	Rate – least deprived	Gap in rates (%)	Annual change in gap (% points)	Cumulative change in gap (% points)
2000	25	43	41		
2001	25	40	38	-3.2	-3.2
2002	26	43	40	2.0	-1.2
2003	28	46	39	-1.2	-2.4
2004	28	43	36	-2.9	-5.3
2005	27	42	35	-1.0	-6.3

Quality of data systems used

A58. Three data sources are used to produce this measure:

- VAT registrations – estimates produced by the SBS from the ONS Inter-Departmental Business Register (IDBR),¹ a National Statistics product;
- adult population – all people aged 16 and over – estimates produced by the ONS from the 2001 Census of Population (mid-2001 estimates), a National Statistics product; and
- the DCLG Index of Multiple Deprivation 2004, described in SR04 PSA 6 (iii) above.

A59. The original target was set using the Index of Multiple Deprivation 2000. This Index was based upon 1998 wards, which are no longer held on the IDBR. The target now uses the Index of Multiple Deprivation 2004. This Index is based on Super Output Areas (SOA), which are held on the IDBR. Therefore deprived areas are the 20% most deprived lower layer SOAs in England.

A60. A number of deprived SOAs have extremely high VAT registration rates, which distort the results for all deprived areas. They have been removed to ensure results are representative of the vast majority of deprived areas. Also, some enterprises choose to register their business in city centres, particularly in central London, when the business activity mostly takes place elsewhere. In total 197 of the 6,496 SOAs are excluded (3%). These areas had a collective VAT registration rate in 2005 of 274 registrations per 10,000 adults, compared to 27 in the remainder of the deprived areas.

A61. Because businesses are not compelled to register for VAT until their turnover reaches the VAT threshold (which stood at £61,000 on 1 April 2006), this measure does not capture all enterprise activity. While some businesses will register for VAT as soon as they start (or even before), others may not register for several years. This is why Spending Review 2004 uses a different measure (SR04 PSA 6 (iii) above) for enterprise in disadvantaged communities.

1 www.statistics.gov.uk/idbr

SR02 PSA9

Not Met

By 2006, working with all Departments, bring about measurable improvements in gender equality across a range of indicators, as part of the Government's objectives on equality and social inclusion.

Related target: **SR04 PSA 9** – By 2008, working with other Departments, bring about measurable improvements in gender equality across a range of indicators, as part of the Government's objectives on equality and social inclusion.

A62. The Government's Women and Equality Unit is responsible for overall delivery of this cross-Government Gender Equality PSA. In 2006 the Unit was moved to the newly-created Department for Communities and Local Government (DCLG) as part of a machinery-of-government change, and with it the SR04 PSA was transferred to the DCLG. Please refer to the DCLG's Annual Report for an update on its progress.¹

A63. The period covered by the earlier Gender Equality PSA for SR02 ended before this change took place. The Department will therefore continue to report on the SR02 PSA – see below.

Current position

A64. The majority of indicators and measures for this target were rolled into SR04 PSA 9 (see above) with increased targets. The chart below gives a brief summary of performance. This PSA has been assessed as not met because the

success definition was that measurable improvements were to be achieved in a majority of indicators by 2006. The final out-turn was that six sub-targets have been met, five were not met and the out-turn for one is not known.

¹ www.communities.gov.uk/index.asp?id=1510644

Figure A.2

SUB-TARGET	TARGET	BASELINE	LATEST/FINAL OUT-TURN	Assessment
1 Flexible working(a) Employee awareness	56% by 2006	52% (2003)	56% ¹	Met
(b) Employer provision	50% by 2006	44% (2003)	68% for workplaces with five or more employees. 76% for workplaces with ten or more employees. ²	Met
2 Equal pay reviews	35% by 2006	18% (2003)	This sub-target was measured using an EOC survey, which has been discontinued. Therefore it is not possible to establish whether the target level for 2006 was attained. The last available data was for 2005, which showed that 34% of large employers completed an EPR, 10% were in the process of conducting one and 13% had plans to conduct one. ³	Not known
3 Under-represented sectors (i) Women in SET	40% by 2005	23% (2003)	Women currently make up 26% of the representation of science, engineering and technology (SET) boards and councils.	Not met
(ii) Business Link users	40% by 2006	25.8% (2002-03)	Final data: 29.5% for 2005-06 ⁴	Not met
(iii) Women in ITEC	Increase from baseline by 2006	23% (2002)	19% ⁵	
4 Public bodies	Over 40% for the majority of depts by 2006	34% (2002)	35.5% ⁶	Not met
5 Senior Civil Service (i) Women in SCS	35% by 2005	26.4% (April 2003)	29.1% (March 2005). This represents an increase on the 27.8% out-turn for April 2004.	Not met
(ii) Women in top management posts	25% by 2005	22.9% (April 2003)	25.5% (April 2005)	
6 Judicial Appointments	Increase from baseline by 2006	34% (2001-02)	41% ⁷ (2005-06)	Met
7 Childcare	250,000 new places by 2006	185,374 (2002)	803,145 gross new places created by the end of March 2006. ⁸	Met
8 Domestic Violence	Increase from baseline by 2006	58% (2003-04). Baseline set early 2005	69% ⁹	Met

Notes:

- 1 This is the final data from the Work Life Balance Survey employee report published in July 2006, based on fieldwork in January and February 2006, www.dti.gov.uk/files/file32116.pdf
- 2 This is the final data available for this sub-target and derives from the 2004 Workplace Employment Relations Survey: see Inside the workplace: first findings from the 2004 workplace employment relations survey published in 2005, www.dti.gov.uk/files/file11423.pdf
- 3 2005 Equal Pay Review Survey (January 2006), www.eoc.org.uk/pdf/wp_42_equal_pay_review_survey.pdf
- 4 Business Link service providers' customer satisfaction surveys
- 5 Figures obtained from the ONS Labour Force Survey by e-skills UK, the Sector Skills Council for IT, Telecoms and Contact Centres, 2006
- 6 Public Bodies, March 2006, www.publicappointments.gov.uk/diversity.aspx
- 7 Source: Eighth Judicial Appointments Report 1 October 2005 to 31 March 2006 published by the Department for Constitutional Affairs, www.dca.gov.uk/judicial/ja-arep2006/index.htm
- 8 Source: Ofsted administrative data
- 9 Source: Home Office Police Statistics.

Quality of data systems used

A65. A number of different data systems were used to measure this target's indicators. These include surveys carried out by independent bodies on behalf of the Department, such as the Work Life Balance Survey, and statistics collected by other Government Departments, such as the Cabinet Office and the Home Office.

A66. The domestic violence sub-target (8) was measured by an indicator which used the

proportion of arrests as a proxy for the response to domestic violence. Although legislative changes occurred in Quarter 4 of 2005-06, revised guidance was not issued to police forces until the beginning of 2006-07. As a result forces continued to use the original denominator for that Quarter, and the data obtained appears to reflect this. The Home Office are therefore content that this final figure is an accurate reflection of activity for 2005-06.

SR02 PSA10

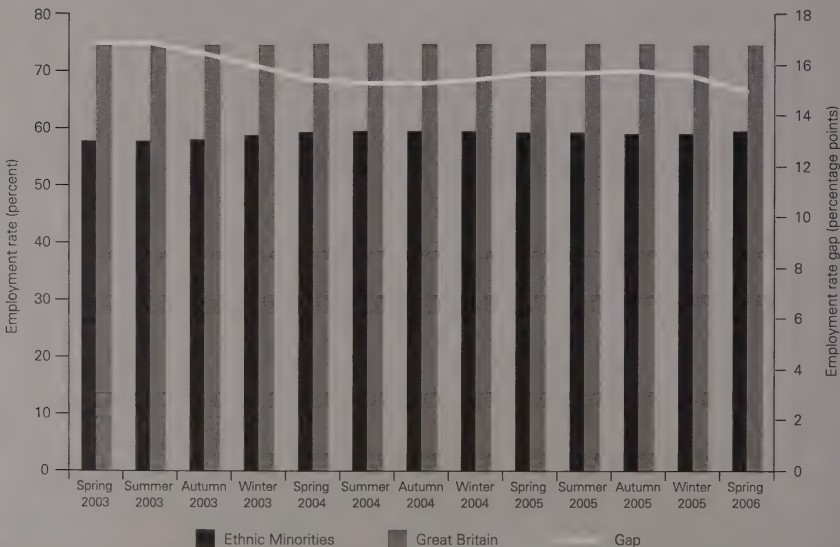
On course

In the three years to 2006, taking account of the economic cycle, increase the employment rate and significantly reduce the difference between the overall employment rate and the employment rate of ethnic minorities. Joint with the Department for Work and Pensions (DWP).

Current position

A67. The Department is on course to deliver this target. Measurement for this target was based on four-quarter rolling averages and the chart below shows the progress made against it over the three years to spring 2006. A final assessment of this target will be made once further information on the economic cycle becomes available.

Figure A.3



A68. A significant increase in the ethnic minority employment rate is defined as at least a 1 percentage point increase in the Spending Review period. Similarly, the gap with the overall rate has to close by at least 1 percentage point for the reduction to be significant.

A69. At the 2003 baseline (SR02) the ethnic minority employment rate stood at 57.8% with an employment rate gap of 16.9 percentage points. By the end of the PSA period, the four

quarter average to spring 2006 shows an ethnic minority employment rate of 59.7% and a gap against the overall rate of 15 percentage points – an improvement of a 1.9 percentage point increase in the ethnic minority employment rate and a 1.9 percentage point decrease in the gap with the overall rate. This represents an improvement above the target of a change of 1 percentage point.

Quality of data systems used

A70. The ethnic minority employment rate is based on aggregated data for all respondents to the Labour Force Survey (LFS, see page 295 for details).

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Annex A.3

Public Accounts Committee reports

57th Report of 2006-07: the closure of MG Rover: 25 July 2006

A71. The PAC report examined the efforts made by the Department to provide support to MG Rover prior to the collapse and the subsequent response by the various agencies to alleviate the impact of the closure on the local community. Amongst the Committee's findings, it concluded that:

- The Department responded well where it had contingency plans, and that local agencies did well in the immediate aftermath of the company's collapse. Where a major company is at risk, the Committee recommended that Department should develop a planned response in good time which is revisited regularly. The Department should also disseminate the lessons learned from diversifying the West Midlands economy. The Department welcomed the Committee's positive comments and agrees that it is important to learn the lessons, many of them positive, of the response to MG Rover's collapse. With this in mind, the Department has been working with other Government departments to develop a "Large-Scale Redundancies Framework" for responding to major job losses.
- Although the Rover Task Force had been wound up, Advantage West Midlands (AWM) and Job Centre Plus should continue to report the number of former employees still unemployed and on the nature of work obtained and the success of retraining initiatives. The Department agreed with the Committee's assessment of the positive impact of the Task Force, and of previous efforts to diversify the West Midlands manufacturing base and reduce reliance on MG Rover. Work is ongoing to support former workers and the local community. Over 90% of former employees of MG Rover and its suppliers who registered with Job Centre Plus have now left benefits. Provision has been made by AWM for the evaluation of the support package.

A72. The Committee also noted that the Department had appointed Company Act Inspectors to investigate MG Rover's affairs. This investigation is ongoing. The Department and the inspectors are intent on completing this inspection as quickly as possible, with due regard to the fairness of procedures, and to the thoroughness of the task. The total cost of the inspection as at 31 March 2007 was £6,782,781 plus VAT of £1,247,766 and disbursements of £349,369, with spend in the financial year 2006-07 of £3,192,149 plus VAT of £579,173 and disbursements of £117,409.

11th Report of 2006-07: supporting small business: 6 February 2007

A73. In May 2006, the National Audit Office published a report on the Small Business Service (SBS). This was followed by a Public Accounts Committee hearing on 19 June 2006, and a PAC Report published on 6 February 2007. The main criticisms outlined in the PAC Report were the need for SBS to demonstrate its impact against Government aims and objectives (and whether it represented value for money), to reduce the Government's small business support network of 3,000 programmes to under 100, to measure the burden of regulation on business and to ensure SMEs are taken into account when planning regulatory changes, to reduce the wide gap between the commercial default rate for small business and that under the Small Firms Loan Guarantee Scheme (SFLGS), and to publish an update to the Government's Action Plan for small business.

A74. The Government Response to the Report was published on 26 April 2007. A number of changes have been made in response to the PAC Report. SBS is now a strategic policy directorate within the Department, better placed to carry out its role, and its effectiveness will be formally assessed through an annual stakeholder survey. The number of business support programmes is being reduced through the Business Support Simplification Programme and Government has committed to a 25% target net reduction of administrative burden by 2010. Changes have been made to the SFLGS and an update to the Action Plan on small business is due to be published later this year.

15th Report of 2006-07: the termination of the PFI contract for the National Physical Laboratory: 13 March 2007

A75. The PAC report examined the termination of the PFI contract for the National Physical Laboratory. Amongst the Committee's recommendations, which may be applicable to future PFIs, were:

- public sector clients should always satisfy themselves that contractors have the technical and financial capacity to handle the degree of project risk which they undertake to bear;
- for particularly challenging projects, departments should require bidders to demonstrate that their designs will work before the award of contract;
- departments should plan standby arrangements so that if there are delays to projects they can maintain business continuity without compromising their requirements; and
- departments should be aware that project lenders are unlikely to exercise their step-in rights unless they consider it in their interests to do so.

Annex B.1

Acronyms

ACCAT	– Advisory Committee on Carbon Abatement Technologies	DWP	– Department for Work and Pensions
ACP	– African Caribbean and Pacific	ECGD	– Export Credit Guarantee Department
AHRC	– Arts and Humanities Research Council	EEF	– Engineering Employers' Federation
AME	– Annually Managed Expenditure	EG	– Enterprise Grants
APR	– Autumn Performance Report	EGNOS	– European Geostationary Navigation Overlay Service
AWM	– Advantage West Midlands	EIA	– Equality Impact Assessments
BBSRC	– Biotechnology and Biological Sciences Research Council	EIT	– European Institute of Technology
BERD	– Business Enterprise Research and Development Expenditure	EOC	– Equal Opportunities Commission
BERR	– Department for Enterprise, Business and Regulatory Reform	EPA	– Economic Partnership Agreement
BME	– British Minority Ethnic	EPR	– Equal Pay Review
BNFL	– British Nuclear Fuels Limited	EPSRC	– Engineering & Physical Sciences Research Council
BNSC	– British National Space Centre	ERDF	– European Rural Development Fund
BPO	– Business Plan Objective	ESA	– European Space Agency
BRE	– Better Regulation Executive	ESRC	– Economic and Social Research Council
BSMS	– Business Support Monitoring Surveys	ETI	– Energy Technologies Institute
CBI	– Confederation of British Industry	ETS	– Emissions Trading Scheme
CCL	– Climate Change Levy	FCO	– Foreign and Commonwealth Office
CCLRC	– Council for the Central Laboratory of Research Councils	FEC	– Full Economic Cost
CETV	– Cash Equivalent Transfer Value	FP7	– Framework Programme 7
CIB	– Companies Investigations Branch	FRC	– Financial Reporting Council
CIS	– Community Innovation Survey	FTE	– Full Time Equivalent
CLG	– Department of Communities and Local Government	GDP	– Gross Domestic Product
COPD	– Chronic Obstructive Pulmonary Disease	GO	– Government Offices
CSR	– Comprehensive Spending Review	GSIF	– Global Science and Innovation Forum
CST	– Council for Science and Technology	GVA	– Gross Value Added
CTSA	– Consumer and Trading Standards Agency	HEBCI	– Higher Education Business and Community Interaction Survey
DCMS	– Department for Culture Media and Sport	HEI	– Higher Education Institute
DDA	– Doha Development Agenda	HESA	– Higher Education Statistics Agency
DEFRA	– Department for Environment Food and Rural Affairs	HSC	– Health and Safety Commission
DEL	– Departmental Expenditure Limit	HSE	– Health and Safety Executive
DFES	– Department for Education and Skills	I&C	– Information and Consultation
DfID	– Department for International Development	IAEA	– International Atomic Energy Agency
DfT	– Department for Transport	IAP	– Information Age Partnership
DIUS	– Department for Innovation, Universities and Skills	IBM	– Independent Board Members
DTI	– Department of Trade and Industry	IDBR	– Inter-Departmental Business Register
		IEF	– International Energy Forum
		IIS	– Intelligent Infrastructure Systems
		ILMA	– Index of Labour Market Adaptability
		INSEE	– Institut National de la Statistique et des Études Économiques
		IP	– Intellectual Property
		IPA	– Independent Performance Assessments

ITEC	– Information, Technology, Electronics and Communications	PSG	– Professional Skills for Government
ITU	– International Telecommunication Union	PSRE	– Public Sector Research Establishment
JESS	– Joint Energy Security of Supply Working Group	RCUK	– Research Councils UK
KTN	– Knowledge Transfer Network	RDA	– Regional Development Agency
LBRO	– Local Better Regulation Office	REACH	– Registration, Evaluation and Authorisation of Chemicals Directive
LCBP	– Low Carbon Buildings Programme	RIDDOR	– Reporting of injuries, Diseases and Dangerous Occurrences Regulations 1996
LFS	– Labour Force Survey	RoHS	– Restriction of the Use of Certain Hazardous Substances
LNG	– Liquefied Natural Gas	SBS	– Small Business Service
MAS	– Manufacturing Advisory Service	SCS	– Senior Civil Service
MDUK	– Motorsport Development UK	SD	– Sustainable Development
MRC	– Medical Research Council	SEEDA	– South East England Development Agency
NAO	– National Audit Office	SET	– Science Engineering and Technology
NATS	– National Air Traffic Control Service	SFIE	– Selective Finance for Investment in England
NCGE	– National Council for Graduate Entrepreneurship	SFLGs	– Small Firms Loan Guarantee scheme
NDA	– Nuclear Decommissioning Authority	SITPRO	– Simpler Trade Procedures Board
NDPB	– Non- Departmental Public Body	SME	– Small and Medium Enterprises
NEP	– National Emergency Plan	SOA	– Super Output Area
NERC	– Natural Environment Research Council	SR	– Spending Review
NETCEN	– National Environmental Technology Centre	SRIF	– Science Research Investment Fund
NISR	– Nuclear Industries Security Regulations	SSC	– Sector Skills Council
NMS	– National Measurement System	STFC	– Science and Technology Facilities Council
NMW	– National Minimum Wage	STEM	– Science, Technology, Engineering and Mathematics
NPL	– National Physical Laboratory	SWRDA	– South West of England Regional Development Agency
NRF	– Neighbourhood Renewal Funding	TDST	– Transdepartmental Science and Technology Group
NSAM	– National Skills Academy for Manufacturing	TNA	– The National Archive
NSSF	– National Standardisation Strategic Framework	TSB	– Technology Strategy Board
NWML	– National Weights and Measures Laboratory	TUC	– Trades Union Congress
OCNS	– Office for Civil Nuclear Security	UCPD	– Unfair Commercial Practices Directive
OCA	– Office of the Commissioner for Public Appointments	UKAEA	– United Kingdom Atomic Energy Authority
OECD	– Organisation for Economic Cooperation and Development	UKCS	– UK Continental Shelf
OFT	– Office of Fair Trading	UKERP	– UK Energy Research Partnership
OGC	– Office of Government Commerce	UKIPO	– UK Intellectual Property Office
ONS	– Office of National Statistics	UKSEC	– UK Science Enterprise Centres
OPCW	– Organisation for the Prevention of Chemical Weapons	UKTI	– UK Trade & Investment
OPPC	– Oil Pollution Prevention Control	UNCTAD	– United Nations Conference on Trade and Development
OSCHR	– Office of Strategic Co-ordination of Health Research	WWF	– Vibration White Finger
OSI	– Office of Science and Innovation	WEEE	– The Waste Electrical and Electronic Equipment Regulation
PAC	– Public Accounts Committee	WERS	– Workforce Employee Relations Survey
PCPF	– Parliamentary Contributory Pension Fund	WETF	– Women's Enterprise Task Force
PFI	– Public Finance Initiative	WTO	– World Trade Organisation
PPARC	– Particle Physics and Astronomy Research Council		
PSA	– Public Service Agreement		

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Annex B.4

Reference notes

For details about and references to data sources used for the public service agreements described in chapter 2, please see Annex A.1. Internet links listed below are correct at time of publication but are subject to change. The change from DTI to its successor departments (see section 1.1) may result in DTI weblinks becoming inaccessible.

- 1 www.berr.gov.uk/about/strategy-objectives/PSA-Targets/page25148.html
- 2 www.berr.gov.uk/about/strategy-objectives/Business-Plans/page12611.html
- 3 www.communities.gov.uk/index.asp?id=1123045
- 4 More detail is available at www.dti.gov.uk/about/economics-statistics/economics-directorate/page21913.html
- 5 www.berr.gov.uk/science/science-funding/framework/page9306.html
- 6 http://www.hm-treasury.gov.uk/media/1E1/5E/bud06_science_332.pdf
- 7 http://www.hm-treasury.gov.uk/media/56F/62/pbr06_cooksey_final_report_636.pdf
- 8 These attributes also provide indicators of progress against the measures set out in the ten-year Science and Innovation Investment Framework. See: www.hm-treasury.gov.uk/spending_review/spend_sr04/associated_documents/spending_sr04_science.cfm
- 9 www.berr.gov.uk/science/science-funding/budget/uk_research_base/page29207.html
- 10 Sources: Thompson ISI, OECD.
- 11 Biological 2nd, Clinical 2nd, Engineering 4th, Environmental 2nd, Maths 3rd, Physical Sciences 4th, Pre-Clinical and Health 2nd, Social Sciences 2nd and Business 2nd. The broad disciplines are an amalgamation of the 68 Research Assessment Exercise (RAE) subject units of assessment.
- 12 <http://www.berr.gov.uk/files/file32024.doc>
- 13 www.hefce.ac.uk/pubs/rereports/2006/rd17_06/
- 14 http://www.hefce.ac.uk/pubs/hefce/2006/06_25/
- 15 Two of the indicators listed in the Technical Note (number of publications and patents jointly authored between science base and industry, and level of business confidence) have been dropped. It has been decided not to replace them with other indicators. Some of the 2002-03 data shown here varies slightly from that published in the last Departmental Report. This is because HEIs are asked to re-verify the previous year's figures when the HEBCI survey is issued. As a result, information on business interactions which had not been available when the figures were previously collated is captured.
- 16 Source: ONS for UK, OECD remainder.
- 17 <http://www.statistics.gov.uk/STATBASE/Product.asp?vlnk=8206>
- 18 As a result of the revision of UK BERD figures by the ONS, the figure given in our Autumn Performance Report 2005 for 2004 R&D spend by UK businesses (£13.4 billion) was adjusted to £12.8 billion.
- 19 Source: US Patent and Trademark Office and OECD's Patent Database and Main Science and Technology Indicators. The data is for the inventor's country of residence.

- 20 available on the Euro Stat New Cronos website:
http://epp.eurostat.ec.europa.eu/portal/page?_pageid=1090,1&_dad=portal&_schema=PORTAL
- 21 www.innovation.gov.uk/rd_scoreboard/index.asp
- 22 www.oecd.org/publications
- 23 www.berr.gov.uk/files/file9656.pdf
- 24 Sources: Science and Enterprise centres, HEBCI survey; OECD
- 25 Includes one-off initiative to provide short computer based courses to all SET students in Scotland; if excluded from the return, the figure would be 3,032.
- 26 www.hm-treasury.gov.uk/documents/enterprise_and_productivity/research_and_enterprise/ent_res_roberts.cfm
- 27 <http://www.dti.gov.uk/files/file31810.pdf>
- 28 <http://www.hm-treasury.gov.uk>
- 29 House of Commons, Science and Technology Committee: *Office of Science and Innovation: Scrutiny Report 2005 and 2006* (Sixth Report of Session 2006-07), page 15.
- 30 <http://www.scitech.ac.uk/Home.aspx>
- 31 <http://www.berr.gov.uk/files/file34029.doc>
- 32 http://www.diamond.ac.uk/CMSWeb/Downloads/diamond/Press/Press_Release_06Feb07.pdf
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www.hefce.ac.uk/pubs/hefce/2006/06_25/ and Second Annual Survey of Knowledge transfer Activities in Public Sector Research Establishments www.berr.gov.uk/files/file32033.pdf
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- 47 <http://www.the-ba.net/the-ba/Events/NSEW/index.html>
- 48 http://www.hm-treasury.gov.uk/independent_reviews/stern_review_economics_climate_change/stern_review_report.cfm
- 49 http://www.hm-treasury.gov.uk/spending_review/spend_csr07/spend_csr07_longterm.cfm
- 50 http://www.foresight.gov.uk/Previous_Projects/Detection_and_Identification_of_Infectious_Diseases/Index.htm
- 51 <http://www.cst.gov.uk/cst/business/nanoreview.shtml>
- 52 <http://www.berr.gov.uk/files/file37104.pdf>. DTI/Pub 8479/1 k/02/07/NP.
URN 07/52
- 53 www.sigmascan.org; www.deltascan.org
- 54 www.dti.gov.uk/files/file34726.pdf
- 55 http://ec.europa.eu/research/fp7/home_en.html

- 56 www.berr.gov.uk/innovation/technologystategy
- 57 www.npl.co.uk
- 58 DTI: £18.5 million, other public sector sponsors (Research Councils, Regional Development Agencies, Other Government Departments) contributed approx. £11.5 million
- 59 http://www.hm-treasury.gov.uk/media/583/91/pbr06_gowers_report_755.pdf
- 60 <http://www.europe-innova.org/exportedcontent/docs/6/6206/en/EN%20502%20-%20original.doc>.
- 61 www.nwml.gov.uk/Content.aspx?WS_ID=5
- 62 <http://www.ipo.gov.uk/about/about-ourpublications/about-review.htm>
- 63 The SR2002 target was based on VAT registrations data only. Since only those businesses reaching a certain turnover threshold had to register for VAT (although some businesses register voluntarily), the target would miss some very small enterprises.
- 64 www.cabinetoffice.gov.uk/third_sector/social_enterprise
- 65 <http://www.berr.gov.uk/bbf/small-business/streamlining-government/>
An introductory document setting out the background and aims of the programme and seeking feedback is available at www.dti.gov.uk/files/file38859.pdf,
- 66 www.mas.dti.gov.uk
- 67 www.berr.gov.uk/bbf/small-business/index.html. The Annual Report for the SBS may not yet be available at the time of publication of this DTI Report.
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- 69 All GVA growth rates presented here have been adjusted by a national deflator
- 70 This has been revised down from the 0.75 provisional percentage point gap in growth rates set out in the SR04 technical note of the PSA target due to revisions in ONS data after publication
- 71 www.hm-treasury.gov.uk/media/73B/5B/bud07_chapter3_302.pdf (Box 3.2)
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- 87 For the SR04 period, reports switched to financial rather than calendar years. Cumulative figures reported here are based on a rolling annual average, based on performance reports for the most recent four quarters.
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- 89 <http://www.competition-commission.org.uk>
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- 101 www.berr.gov.uk/europeandtrade/key-trade-issues/tradedefence/page38215.html
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- 121 <http://www.nuclearpower2007.direct.gov.uk>
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- 125 www.official-documents.gov.uk/document/cm70/7040/7040.asp
- 126 www.berr.gov.uk/energy/sources/renewables/policy/obligation/ro-and-energy-review/page27959.html
- 127 Press notice R/12 dated 27 March 2007 http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/19162_R12.pdf?wtfrom=/ofgem/index.jsp
- 128 www.dti.gov.uk/files/file38981.pdf
- 129 www.dti.gov.uk/energy/markets/competitiveness/page28432.html
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- 131 www.lowcarbonbuildings.org.uk and www.lowcarbonbuildingsphase2.org.uk
- 132 www.og.berr.gov.uk/consultations/index.htm
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- 134 www.nda.gov.uk/aboutus/mission.cfm
- 135 [www.nda.gov.uk/Our_Business-Strategy-Competition_and_Contracting_\(897\).aspx?pg=897](http://www.nda.gov.uk/Our_Business-Strategy-Competition_and_Contracting_(897).aspx?pg=897)
- 136 HC 255 Session 2006-07
- 137 The Secretary of State's statement to the House of Commons can be found at www.berr.gov.uk/pressroom/Speeches/page39489.html
- 138 www.berr.gov.uk/sectors/aerospace/aerospacelaunch/page9107.html
- 139 www.dti.gov.uk/energy/environment/soviet-nuclear-legacy/Annual%20Report%20
- 140 www.berr.gov.uk/energy/sources/nuclear/safety-security/security/regulator/page36440.html
- 141 www.berr.gov.uk/about/strategy-objectives/annual-spending/page40391.html
- 142 Background information and all published Capability Review reports are available from http://www.civilservice.gov.uk/reform/capability_reviews/index.asp
- 143 The Capability Review of the Department of Trade and Industry and the Management Board response are available from <http://www.berr.gov.uk/about/capability-review/page36002.html>
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